

MS 753 The Recording and Control of Obligations by Overseas Posts

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1.0 Purpose

This Manual Section provides policies and procedures for the recording and control of obligations by overseas Posts.

2.0 Background

MS 704, "Administrative Control of Funds," explains the Peace Corps' system of administrative control of funds. Under this system, the Director delegates authority to each office to incur obligations and make expenditures within a specified amount during a specific period of time. A separate allotment to each allottee is made for each fund or account. Country budgets are issued to each country by the appropriate Director of Regional Operations (Africa, Inter-America or NANEAP). The issuance of country budgets represents a redelegation of the obligation authority (delegated to the Regional Operations Director by the Associate Director for International Operations through the Administrative Budget Advice) to each Country Director. Country budgets are also reflected in the financial plan. Other pertinent statutes and authorities are listed below:

- 31 USC 1501
- OMB Circular A-34, "Instructions on Budget Execution," Part II.

- GAO, Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 4, Obligations.
- GAO, Principles of Federal Appropriation Law, Chapter 4 and Chapter 6.
- Foreign Affairs Manual, Volume 4.
- Peace Corps, Handbook for Fiscal Coding and Report Preparation.
- Peace Corps, Manual Section 705, "Financial Recordkeeping (Cuff Records) and Budget Tracking."

3.0 Responsibility

The Office of Financial Management (M/FM) and PC Post officials will assure that the requirements outlined herein are observed by fiscal service activities overseas and in Washington. At the Post level, liaison for obligation control and adequate channels for document flow and report preparation will be established to assure full observance of the requirements of this Manual Section. The Director of the Accounting Division (M/FM/A) will assist Post officials in complying with this Manual Section and in negotiating with other agencies providing fiscal, disbursing or reporting support. Posts are reminded that ADP and software procurements must be approved by the Associate Director for Management (AD/M) prior to obligation of funds.

The requirements outlined in this Manual Section must be observed by officials and responsible employees at PC Posts, U.S. embassies and regional budget and fiscal offices, regional financial management centers and those PC/Washington offices which provide fiscal support for Peace Corps programs overseas. The contents are arranged to highlight the policies, procedures and reporting requirements that apply to the recording and control of obligations.

4.0 Obligation Procedures

4.1 Limitations on Post Obligations

Post budgets at a minimum provide separate limitations on the major budget activities: Program Support and Volunteer Operations. Where necessary to maintain program control, budgets may be further subdivided by purpose code (e.g., in-service training, Volunteer support). Obligations during the quarterly periods must not exceed the budgeted amount for each activity, or for those budget line items or purpose codes having a limitation. Reprogramming of amounts between purpose codes and budget activities is not permitted without regional approval.

The Country Director will maintain an informal fund and obligation control procedure (cuff records) described in MS 705, "Recordkeeping and Periodic Reporting". Directors are responsible for the proper management of funds provided in their Posts' operating budgets. The controls at Post must be adequate to assure that neither over obligations nor over expenditures occur both within limitations placed on line items and on the overall amounts available in sections or the budget in total (see MS 704, "Administrative Control of Funds")

4.2 Obligation Criteria

An obligation is any action that creates a legal liability on the part of the U.S. Government to make a disbursement. Funds appropriated to the Peace Corps are typically available for obligation (use) only through the end of the fiscal year of the appropriation. Obligations include amount of orders placed, contracts awarded, employment, expenses of travel, and any other legal liability of the United States that will require payment during the same or future period. In addition to orders and contracts for future performance, obligations include salaries, benefits, and allowances.

The general rule for lawfully obligating funds is that the items obtained or services received must fill a bona fide need arising during the period of availability of the appropriation for obligation, including stock replenishment, and that the obligation is not incurred at a date earlier than is necessary for the successful conduct of the Government's business. See MS 733, "Leases," for a detailed discussion of when to record obligations for multi-year overseas leases.

4.2.1 Documentary Evidence of Obligations

31 U.S.C. 1501 prescribes that all obligations must be supported by documentary evidence of transactions authorized by law, such as: a binding agreement in writing, a valid loan agreement, certain orders placed with government agencies, a grant or subsidy, a liability resulting from pending litigation, employment of persons, expenses of travel, or other legal liabilities of the United States.

4.2.2 Application of the Concept

Guidelines on the application of the concept of obligations are outlined below. Ordinarily, these guidelines should be followed by all Fiscal Support/Service Organizations (FSSOs) in recording and reporting obligations. Questions on interpretation of these guidelines should be directed to the Office of Financial Management.

4.2.2.1 Personnel Compensation and Benefits

Obligations include amounts earned by employees and others during the reporting period. Charges based on salaries and wages, allowances such as living and quarters allowances and the employer's share of contributions to the retirement fund, health and life insurance, and FICA (Social Security) taxes, are accrued obligations at the time the salaries and wages are earned, but are adjusted to actual obligations when they are scheduled for payment. Except as noted below in 6.1.1., living and leave allowance of Volunteers and Trainees are considered obligations when earned, regardless of when paid. Other payments, such as incentive awards, are reported when they become payable to the employee. Severance pay for U.S. employees will be reported as an obligation of the pay period covered, on a pay period by pay period basis as it is earned. Obligation of FSN severance pay depends on local law and the local employment plan, and shall be checked with General Counsel before obligation is made.

4.2.2.2 Transportation

Obligations include amounts for transportation that are needed (i.e. to fill a bona fide need) during the reporting period and for which a valid contract for transportation services has been made, or transportation expenses have been incurred. Transportation requisitions, Government bills of lading and shipping orders are subauthorizations and support the basic obligation but are not of themselves obligating documents. In the case of transportation expenses incident to relocation at the request of the Peace Corps, the amount will be reported as an obligation when the expense is incurred.

Obligations may be tentatively recorded for future transportation within the year, provided that they are adjusted to reflect actual obligations at the end of the fiscal year.

4.2.2.3 Travel

Under the Peace Corps Act, international travel begun in one fiscal year but completed in another year may be treated as a valid obligation of the year in which some part of the travel was begun or when international travel expenses were incurred. Domestic travel must be charged to the fiscal year in which it actually took place. The approved travel authorization/order is used as the obligating document.

4.2.2.4 Communication and Utility Service

Obligations include amounts for services received or amounts owed during the reporting period. In those cases where bills are rendered for a period beginning in one

month and ending in the following month, the services received after the latest billing date need not be included. However, if the accrued liability for communication and utility services performed for the portion of the month between the end of the billing period and the end of the month is material, record it as an obligation. In the case of Postage, include the cost of stamps purchased and the amount owed for penalty mail dispatched during the reporting period.

4.2.2.5 Rents and Leases

Current fiscal year funds may be obligated for leases extending up to five years. While a two year lease requires the obligation of the entire lease cost out of currently available fiscal year funds, it does not require payment of the total amount in one lump sum to the landlord. The Anti-deficiency Act prohibits the obligation of funds

before enactment and the President's signing of the fiscal year's appropriation or a continuing resolution.

4.2.2.6 Printing and Reproduction, Other Contractual Services, Supplies, Materials and Equipment

Documentary evidence of binding agreements, orders, or other legal liabilities is required before an amount may be recorded and reported as an obligation. Obligations include orders placed and contracts awarded (see paragraph 4.2., above). With regard to specific types of contracts and orders, the following procedures will be observed (see also MS 732, "Procurement Regulations, Rules, and Procedures--Overseas and U.S." and MS 514, "Requisitioning Supplies"):

- Cost-plus-fixed-fee and other types of contracts without a fixed price: Obligations include the total estimated cost of the contract, including the total fixed fee, if any. This figure will be reported for the month during which the contract is awarded. Subsequent adjustments upward or downward in the estimated cost (or the fixed fee, if any) will be reflected in subsequent reports. If there is a maximum price stated, including incremental amounts, the maximum amount will be reported at the time the contract is awarded.
- Contracts subject to the availability of appropriations: Report as an obligation the amount that the contractor has been notified is available for payment under the current appropriation. The reported amount should be modified based on any subsequent agreements.
- Contracts for variable quantities: Where a contract mentions several quantities as alternatives, report only the amount for the quantity specified for delivery, exclusive of permitted variations. In the case of contracts that provide for

delivery only when and if requested by the government (such as blanket purchase agreements), where the Government assumes no specific obligation, only orders for delivery will be reported.

- Purchase orders: Include specific orders for material or services not reflected in the items described above.
- Orders placed with the Government Printing Office (GPO) and the General Services Administration (GSA): These are recorded as obligations at the time the order is issued.
- Other intragovernmental orders: Include orders placed and accepted under the project order law (41 U.S.C. 23), pursuant to section 601 of the Economy Act (31 U.S.C. 1535) and similar legislation. Note, however, that these amounts are available for obligation by the receiving Agency only for the same period as the account from which the amounts are withdrawn.
- Participating Agency Support Agreements (PASA): Includes work performed under the authority of the Foreign Assistance Act. Availability depends on the length of the appropriation availability to the providing Agency.

4.2.3 Bona Fide Need

In reporting orders for supplies and services, Posts are reminded that the general rule for obligating funds is that the supplies or services ordered are intended to meet a bona fide need of the fiscal year in which the funds were appropriated or to replace stock used in that fiscal year. (See paragraph 4.2., above).

4.2.4 Commitments

Administrative intentions (i.e., procurement requests, invitations for bids, or any other action short of a binding contract, order, or other similar agreement (such as amounts identified for contemplated procurement) are not valid obligations and should not be included in the amounts reported as obligations. However, these amounts should be reported when estimated obligations are requested by PC/W such as in quarterly budget reviews and cables of obligations.

5.0 Procedures and Records

5.1 General Requirements

Peace Corps Posts shall follow the procedures for controlling funds, classifying costs, recordkeeping and reporting, prescribed in the Peace Corps Manual (Peace Corps

Manual series 500 'Overseas Administration', 700 'Budget and Fiscal', and 800 'General Administration'), and shall use the obligating documents described in the Foreign Affairs Manual, Volume 4 (4 FAM 052.5). The Department of State (DOS) through its embassies and regional budget and fiscal offices provides the major fiscal support to the Peace Corps Posts. In addition, RAMC and FMC disbursing centers provide disbursing support, financial data and reports. Peace Corps officials must be familiar with the 700 series of the Peace Corps Manual and the financial management procedures, accounting principles and standards prescribed by the Agency.

5.2 Documentation and Records

Obligation control ledgers should be maintained to show funds available, amounts obligated, and unobligated balances. MS 705 provides a procedure for Posts to control funds and record transactions on a day-to-day basis.

6.0 Procedures for Special Types of Transactions and Payments

6.1 Transactions Requiring Special Procedures

Special procedures are required for certain types of transactions because the obligation document preparation, obligation recording, check issue, and disbursement are at different locations and may occur days or weeks apart. To permit timely payment, recording and reporting procedures are provided below.

6.1.1 Volunteer Living, Settling-in and Leave Allowances

In general, the payment of these allowances must be recorded as an obligation in the month of the fiscal year covered by the allowance, rather than in the year the documents are processed. However, the General Counsel has determined that allowances for October and November may be ordered in advance and recorded as an obligation during the month they were ordered if necessary to guarantee the timely arrival of the check. Posts must document the justification on the voucher, citing the specific time frames for check issuance which necessitates the early ordering.

6.1.2 Travel Outside the U.S.

All travel abroad is considered international travel and is obligated when the travel begins. Apply the following general rules when determining the chargeable fiscal year.

1. If a travel authorization (TA) was approved in September for travel that did not actually begin until October, the charge is not a valid September obligation but a charge to the new fiscal year.
2. If a TA was approved in September for travel that began on or before September 30, the travel is charged to the (September) fiscal year.

6.1.3 Personal Service Contracts (PSCs)

The general rule when determining the chargeable fiscal year for personal services contracts is to charge the fiscal year in which the services are actually performed. Where the contract involves more than one fiscal year, funds will be obligated in the appropriate fiscal years. For PSCs covering services in future fiscal year(s), the contract must be executed with a specific clause providing that the contract in the future fiscal year is subject to the availability of funds. Once funds become available a unilateral amendment obligating the funds must be executed by the contracting officer and the new obligation recorded. PSCs of a non-severable nature for distinct projects, such as training, approved in one year must be obligated in the same year provided initial costs are incurred in the year it was executed.

6.2 Interoffice Transfer (Advice of Charge) Procedures

Information regarding payments and collections by another location is furnished to the chargeable location by interoffice transfer/advice of charge (IT/AOC) FS Form 477 or 477M, 'Liquidation Transfer/Register Journal Voucher'; or DS 1491, "Interoffice Document Transfer Receipt", together with supporting vouchers or other applicable documents (see 4 FAR 252). On the basis of these forms the transactions are recorded at the location where initial entries and final reporting occurs. (see Fiscal Coding Handbook for detailed procedures).

6.2.1 Transactions Relating to Peace Corps/Washington Offices

Send one copy of the IT/AOC and one copy of the supporting documents, to M/FM/A with the PC-47, "Payments and Collections Transfer Register." An acknowledgement of receipt will not be sent by PC/W to the sending Post unless further resolution is necessary.

6.2.2 Transactions Relating to Other PC Post Funds

Send two copies of the IT/AOC together with one copy of supporting documents, to the fiscal support office for the applicable overseas Post (see Fiscal Coding Handbook for fiscal support services symbols).

6.2.3 Importance of Citing Obligation Number and Other Data

The sending Post should assure that documents accompanying IT/AOC's cite the correct contract or order number, obligation number, fiscal and location codes and other applicable symbols to facilitate identification of the transaction by the receiving Post. This will reduce the need for additional correspondence concerning the transaction.

7.0 Adjustments to Prior Year Obligations

7.1 Need for Adjustments

Obligations are sometimes recorded based on estimates of the amounts that will ultimately be paid. Increase or decrease adjustments may, therefore, be necessary until all amounts are fully liquidated or de-obligated. Adjustments may have to be made not only during the fiscal year for which the funds were authorized, but after the close of the fiscal year as well. The need for adjustment may result from (1) the discovery of unanticipated charges not previously included in the recorded obligations, (2) liquidations during the current year which disclose that the obligations previously recorded were understated or overstated or (3) determinations that recorded obligations should be increased, cancelled or otherwise reduced, on the basis of reviews of unliquidated obligations or other information currently available.

7.2 Availability of Funds for Upward Adjustments After Close of Fiscal Year

The unobligated balances of all fund authorizations are withdrawn by PC/W on September 30 of each year. If a net upward obligation adjustment is necessary later, it may be recorded by the Post without prior PC/W approval if the amount of the adjustment is less than \$1,000. If larger net upward adjustments are required, a request together with an explanation should be sent through the regional office to M/FM/A for approval prior to recording. Formal amended budgets will not be required by the Post from PC/W to cover the net upward adjustments. Amendments to purchase orders and contracts defining the amount of adjustment and reasons therefore must be documented for the file.

7.3 Lapsed Appropriation

An appropriation for a fiscal year lapses on September 30 of the third succeeding year, and is merged into an "M" account with preceding appropriations. The appropriation symbol then becomes 11M0100 instead of the specific year symbol previously used. Accordingly, unliquidated obligations reported as of September 30 for an appropriation which lapses on that date are transferred to the successor "M"

account. Documents on which there were unliquidated balances on that date, and subsequent vouchers, collections or other documents, as well as accounting reports should, therefore, reflect the successor "M" symbol. Although the appropriation lapses, funds to liquidate the unliquidated obligations are available for an indefinite period.

8.0 Review of Unliquidated Obligations

8.1 Need for Review

As stated previously, when the actual amount required for an obligation is not certain, the amount recorded should represent the best estimate. Therefore, it is necessary to record adjustments as soon as more definite information is available. This will permit more efficient control and use of funds.

8.2 Nature of Review

Unliquidated (outstanding) obligations should be reviewed at least quarterly, particularly for the 3rd quarter budget review and as of September 30 to determine whether:

- payments have been completed and, therefore, any outstanding balance should be deobligated;
- in the case where payments have not been completed, an adjustment in the obligation should be made on the basis of previous payments plus payments expected to be made;
- other information indicates that the recorded obligation should be adjusted by amending documentation in the case of contracts, purchase orders, etc.;
- and
- they are appropriately recorded.

8.3 Prior Year Funds

Obligated balances should realistically represent amounts expected to be paid, regardless of the fiscal year funds involved. Therefore, while the review of outstanding current year obligations must be emphasized to assure the most efficient use of funds currently available, prior year obligations should also be adjusted as appropriate. Normally, obligations outstanding at the end of a fiscal year should be

settled within a relatively short period after September 30 and final adjustments made. Further reporting may then be discontinued in accordance with the following paragraph.

9.0 Proration and Application of Charges Between Purpose Codes

Costs for office rent, supplies, equipment or other items, if used for more than one purpose, may be prorated. For example, the cost of office space used by the PC country director and staff is chargeable to purpose code 11. When the same space is also used for training, a prorated amount is chargeable to purpose codes 16 or 14. If significant, costs should be prorated in order that each of the purpose codes bears the appropriate portion of the total cost.

It is not intended, however, that relatively minor charges be prorated, e.g., office supplies purchased primarily for the PC director's use, some of which may be provided incidentally to a Volunteer, or utilities for the PC director's office, some of which may be applicable to the space used for training. Where costs are to be prorated, amounts chargeable to different purpose codes should be initially cited on the obligating documents.

10.0 Instructions for Preparation of Reports

See the "Handbook for Fiscal Coding and Reporting Preparation," for a complete list of required reports and detailed instructions for their preparation.

11.0 Effective Date

This Manual Section is effective upon issuance.