DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT)
WASHINGTON, D.C. 20350

02 MAR 1995

MEMORANDUM FOR DISTRIBUTION

Subj: RESPONSIBILITIES AND PROCEDURES FOR RESOLVING NEGATIVE PROBLEM DISBURSEMENTS

Ref: (a) DoD(C) memo of 31 Mar 94: Negative Unliquidated Balances/Disbursements in Excess of Obligations
(b) DoD(C/FS) memo of 27 May 94: Disbursements in Excess of Obligations: DoD Policy for Military Personnel, Reserve Personnel, and National Guard Personnel Appropriations
(c) DEPSECDEF memo of 7 Oct 94: Unmatched Disbursements

Encl: (1) DoN Guidelines for the Review and Correction of Negative Unliquidated Obligations

(2) Contract Reconciliation Overview

The financial administration of all appropriations and funds provided to the Department of the Navy (DoN) includes an ongoing review of the financial status of the accounts as reported in the official accounting systems. One aspect of this review is the validation of the disbursements and collections recorded against fund authorizations. This review responsibility is applicable to all organizational levels in the DoN's funds distribution process, including allocation holders, suballocation holders, operating budget holders, and operating target holders.

The General Accounting Office (GAO) has commented in numerous audits and reports that the DoD's financial records contain a significant number and dollar amount of problem disbursements. Based on these observations, the GAO has stated that the Department's financial records, reports, and statements are often unreliable and inaccurate. As a result of these findings, the Department of Defense (DoD) is instituting a number of actions to correct these deficiencies.

By references (a) through (c), the Office of the Secretary of Defense issued new policy, procedures and reporting requirements for negative conditions. The guidance imposes a requirement to stop payment if an appropriation or fund has a negative cash balance with the Department of the Treasury. In addition, the guidance includes a requirement to obligate funds to correct a negative condition when disbursements are not corrected within specified time frames.

The DcN has established a Negative Unliquidated Obligations (NULO) Project Management Office within the Office of the Navy

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Comptroller to direct and coordinate the actions of DoN funds administrators to correct NULOs with the assistance of the Defense Finance and Accounting Service. Enclosure (1) provides supplemental guidance concerning the Under Secretary of Defense (Comptroller) policies. All fund authorization holders/administrators are responsible for implementing and adhering to the guidelines contained in enclosure (1). Information on the reporting of NULO corrections will be provided under separate cover.

The DoN point of contact is Ms. Vicki Beck, NULO Project Manager, (703) 607-0875, DSN 327-0875 (Facsimile No. (703) 607-2714 or DSN 327-2714).

Gladys J. Commons

GLADYS J. COMMONS
Principal Deputy
Assistant Secretary of the Navy
(Financial Management)

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Department of the Navy
Guidelines for the Review and Correction of
Negative Unliquidated Obligations

1. General. The Department of Defense (DoD) financial management system requires the active involvement of all organizational levels within the Department of the Navy (DoN) and the Defense Finance and Accounting Service (DFAS) to ensure the accuracy and integrity of the DoN's accounting and financial records. Financial statements and budgetary reports for all appropriations and funds must correctly present the results of the financial transactions incurred during the program execution cycle. Financial transactions include authorizations, commitments, obligations, disbursements and collections. Although the administration of commitments and obligations is primarily the responsibility of DoN fund administrators, and the processing of disbursements is primarily the responsibility of DFAS, the DoN is ultimately responsible for the accuracy and reliability of its accounting records which are the basis of the Department's financial performance on approved programs. Therefore, fund authorization holders/administrators must continuously review the disbursements and collections recorded in the official accounting system against the obligational authority for which they are responsible.

2. Purpose. These guidelines provide information on the organizational roles and responsibilities of the DoN and DFAS concerning Negative Unliquidated Obligations (NULOs). The guidance also provides information concerning the documentation needed to correct NULO disbursements.

3. Definitions. Definitions of problem disbursements are provided below to serve as an overall frame of reference. It is noted that Unmatched Disbursements (UMDs) and NULOs may be categorized differently within the various accounting and reporting systems. Generally, in the Non-Standard and Accounting Reporting System (STARS) community, for example, condition 3 NULOs are non-existent because the Defense Accounting Office (DAO), previously Authorization Accounting Activity, posts and obligates under NULO conditions. Consequently, much of the guidance contained herein will not change the current NULO processes at field level accounting activities.

DoN fund authorization holders/administrators: All activities within the DoN receiving funding for which that activity is responsible for the accuracy and integrity of financial statements which report the status of the funds received. This includes allocation holders, suballocation holders, operating budget holders, and operating target holders. In those cases where the obligational authority is issued to a

unit within the fund authorization holders/administrators organization, e.g. Requiring Financial Managers or Program Managers, that organization is also included within this definition.

Undistributed Disbursement (In-Transit): Payment has been made and is identified to an appropriation at the Department of the Treasury. Identification to accounting data elements below the appropriation level will not occur until the detailed payment record is provided to the accounting office.

Unmatched Disbursement (UMD): Accounting office has received the payment record (disbursement) but can not identify it to all the accounting data elements subject to the edit criteria of the accounting system. For example these edits may include Document Number, Fiscal Year, Appropriation, Subhead, Bureau Control Number (BCN), and Accounting Classification Reference Number (ACRN).

Negative Unliquidated Obligation (NULO): Payment record (disbursement) matches all accounting data elements established in the edit criteria of the accounting system, (e.g., Document Number, Fiscal Year, Appropriation, Subhead, ACRN), but exceeds the recorded obligation amount.

4. NULO Account Conditions. Three conditions have been established by Under Secretary of Defense (Comptroller) (USD(C) for the purpose of classifying NULOs. Negative unobligated balances may be reflected in the official accounting reports at the appropriation level, fund authorization holder/administrative subdivision level (allocation, allotment, or operating budget), or the obligating document/ACRN level (line of accounting). The negative condition may be attributable to either an improperly recorded disbursement, a missing obligation document, a disbursement amount exceeding the initial or adjusted obligation amount, or a missing collection in the case of a reimbursement.

Condition 1. Posting of a disbursement causes the total cumulative disbursements to exceed the total authority at the appropriation level. The last disbursement does not have to be invalid to cause this condition. This condition indicates that the last disbursement caused the account to go negative. Reporting of condition 1 NULOs for DoN appropriations and DoD allocations issued to the DoN is the responsibility of DFAS-Cleveland (CL) and DFAS-Kansas City (KC) only.

Condition 2. Posting of a disbursement causes the total cumulative disbursements at the fund authorization or appropriation level to exceed the total obligations at the fund authorization level and/or appropriation level. In this case, however, the appropriation or authorization holder has sufficient authority (unobligated balance) to cover the negative condition.

As in condition 1, the last disbursement does not necessarily have to be the invalid one. Since DAOs do not have visibility of total appropriations, they will report to DFAS-CL/DFAS-KC all instances where disbursements exceed total authorizations at the fund authorization holder/administrator level. DFAS-CL/DFAS-KC will then determine if a condition 1 or 2 exists and take appropriate action.

Condition 3. A disbursement matches all the accounting data elements at the document/ACRN level but there are insufficient funds obligated to cover the disbursement. This condition recognizes that there is enough authority to cover the disbursement within the fund authorization. Condition 3 NULOs do not include disbursements for which there are no obligations, i.e., failure to match at the document level or where there is no document history. These will be classified as UMDs until such time as supporting documentation is presented by DFAS-CL, DFAS-KC or their supporting DAOs that demonstrate otherwise.

5. Responsibilities. The following provides the responsibilities required to implement and monitor the USD(C) policies concerning NULOs:

(a) Comptroller of the Navy (NAVCOMPT). NAVCOMPT is the manager within the DoN for the financial administration of all DoN appropriations and DoD allocations executed by DoN activities. As the appropriation manager, NAVCOMPT provides direction and assistance to DoN fund authorization holders/administrators concerning the DoN priority, processing and correction of NULO transactions during the review period and correction of improperly recorded disbursements. NAVCOMPT is responsible for establishing priorities, coordinating efforts among DoN organizations, communicating these priorities to the DFAS centers, and coordinating joint DoN and DFAS efforts. In order to accomplish these responsibilities, the DoN has established a NULO Project Manager to direct and coordinate actions to correct problem disbursements with the assistance of DoN fund administrators and DFAS.

(b) DoN fund authorization holders/administrators. DoN fund authorization holders/administrators have the joint responsibility, with DFAS organizations, for the review, research and correction of NULOs and should work closely with their designated DAOs and DFAS-CL/DFAS-KC for the correction of NULOs. The following are specific actions to be taken by DoN activities:

(1) DoN Major Claimants and Headquarters Marine Corps should advise all elements of their organizations and subordinate activities of the importance of routinely reviewing the official accounting records and reports. These reviews, as required by NAVCOMPT Manuals/Directives and Treasury regulations, ensure the validity of all unpaid

obligations as well as the early identification of improper disbursements or collections. Comptroller organizations should assist the fund administrators by providing guidance on the use and review of the official accounting reports, and conduct periodic reviews of subordinate commands to ensure compliance with NULO policies and to evaluate progress and performance in resolving NULO conditions.

(2) DoN Major Claimants and Headquarters Marine Corps should provide the name of their NULO coordinator to the NAVCOMPT NULO Project Manager. These coordinators will serve as the point of contact for NULO issues and will meet with the NULO Project Manager for the establishment of NULO priorities and resolution of other related issues.

(3) All fund authorization holders/administrators shall, upon discovery of NULOs or notification by DFAS of the existence of a NULO condition, immediately begin research to determine the cause of the NULO and take corrective action.

Research shall include review of amounts obligated to ensure all obligations, modifications and adjustments have been recorded in the official accounting records or contract payment system and a review of obligating documents to ensure the accuracy of cited accounting data.

Subsequent to a review of the pertinent obligating instruments, a review of available disbursement payment records posted against obligations should be conducted to ensure the accuracy of accounting data cited on the payments processed. These reviews should also include identification of misapplied payments, especially on obligating instruments citing multiple lines of accounting data. When necessary to complete research efforts, it is advisable that requests to DFAS organizations for vouchers and payment histories be made in writing and clearly identify the obligating instrument for which the information is being requested.

Upon discovery of the cause of the NULO condition, DoN funds administrators should initiate the necessary action to correct the problem disbursement. Corrective actions shall include the recording of initial obligations and/or adjustments not previously entered into the official accounting records; submission of Correction Notices to the servicing DAO to transfer improperly recorded disbursements to the correct obligating instrument; and where permitted transfer of recorded disbursements to the correct obligating instrument.

(4) Major Claimants will prepare and forward to NAVCOMPT a Monthly Consolidated Status of NULO Corrections Report. Reporting format and content will be issued under separate cover.

(c) Defense Finance and Accounting Service. DFAS-CL serves as the primary action officer for all DoN NULO related issues in conjunction with DFAS-KC, the primary focal point for Marine Corps NULOs. The NULO Project manager will coordinate correction efforts established by the DoN with DFAS organizations. DFAS-CL is responsible for providing consolidated problem disbursement reports, investigating and resolving systemic problems, developing and monitoring system change requests, and working closely with NAVCOMPT and DFAS-KC. DFAS-CL will also be responsible for the following specific tasks:

(1) A June 1994 baseline of NULOs and UMDs has been established by DFAS-HQ as required by the Deputy Secretary of Defense memo of 7 October 1994. The baseline established an initial point for future comparisons against monthly summary reports. DFAS-CL, with inputs from DFAS-KC and their supporting DAOs, will compile monthly NULO reports for all DoN general fund accounting and reporting systems. This will enable the DoN to track and monitor NULO correction progress in meeting the Deputy Secretary of Defense goals. These monthly NULO summary reports to NAVCOMPT will be supplemented by a detail report by DAO/System, fiscal year, appropriation, Major Claimant, and Subhead. These detail monthly reports will provide information for DoN major claimant and Headquarters, Marine Corps management actions.

(2) DFAS-CL and DFAS-KC will establish a joint liaison team to coordinate efforts with the DoN and DFAS-Columbus. This on-site liaison team will serve as the point of entry for contract information and correction and provide direct assistance to DoN Claimants and HQ Marine Corps in obtaining supporting documentation.

(3) For condition 1 and 2 NULOs, DFAS-CL, DFAS-KC and their supporting DAOs have the primary responsibility for notification, review, research and correction. This includes developing software specification changes to DoN accounting and reporting systems to identify, age and quantify negative unliquidated obligations by fund authorization holder, appropriation, fiscal year, and document. DFAS-CL will ensure that all stop payment notices for condition 1 are issued immediately and distributed to all DFAS DAOs, paying offices, appropriation managers in the case of Defense Accounts, and NAVCOMPT.

For condition 1 NULOS:

(a) Upon discovery of a condition 1 NULO, DFAS will immediately issue a stop pay message to entire Treasury disbursing network, e.g., Defense Department and State Department disbursing offices. In addition, NAVCOMPT and the appropriation manager for Defense Accounts will be notified.

(b) DFAS will immediately initiate an aggressive research and review effort to determine the cause and correct any accounting errors. DFAS will work closely with DoN fund authorization holders/administrators to expedite correction.

(c) If and when the condition is removed, DFAS will then notify the entire Treasury disbursing network to allow resumption of payments against the appropriation.

(d) If after 4 months (120 days) of research the condition still exists, then DFAS will immediately notify NAVCOMPT of the condition and that a potential Antideficiency Act violation exists which may result in the possible need for funding. To the extent that any availability of funds exists in the appropriation, funds are required to be obligated within 5 days and the obligation remain until such time as the condition is satisfactorily resolved.

(e) If sufficient funds are not available for obligation NAVCOMPT will begin actions to determine the responsible fund authorization holder/administrator and direct them to file an apparent Antideficiency Act violation report in accordance with NAVCOMPT Manual, pars. 032010-032011. In addition, NAVCOMPT will take action to either reprogram funds or initiate a request for a deficiency appropriation.

(f) DFAS will initiate action to resume payments when applicable additional funding is available and obligated.

For condition 2 NULOS:

(a) DFAS organizations will determine, during preparation of monthly accounting reports, whether condition 2 exists on any fund authorization holder's/administrator's reports.

(b) DFAS will immediately notify NAVCOMPT and the NULO coordinator and fund authorization holder/ administrator when a condition 2 NULO is discovered.

(c) DFAS will immediately begin research efforts to determine the cause of the condition and correct any accounting errors.

(d) If DFAS can identify the responsible fund authorization holder/administrator, they will immediately notify that fund authorization holder/administrator of the requirement to **reserve** funds equal to the excess disbursements until the condition is resolved.

(e) If after 4 months (120 days) of research, the condition still exists then DFAS-CL will notify NAVCOMPT and, if possible, the fund authorization holder/administrator, that funds must be **obligated** within 5 days. A copy of the obligation document will be provided upon request.

(4) For condition 3 NULOs, DFAS-CL, DFAS-KC and their supporting DAOs will ensure that DoN fund authorization holders/administrators are notified of the condition via the monthly notification report. Wherever possible an online inquiry or download capability will be provided. In addition, they will assist DoN fund authorization holders/ administrators in the review, research and correction of NULOs. This support will include the reconciliation of contract payment records to official accounting records, providing document histories and copies of payment vouchers.

For condition 3 NULOs:

(a) DFAS-CL, DFAS-KC and their supporting DAOs will notify each fund authorization holder/administrator monthly of all condition 3 NULOs. The monthly notification report will identify, at a minimum, the following information by document: appropriation, FY, subhead, BCN, document number, ACRN, date of last payment, last payment amount, obligation amount, and disbursement amount. In addition, DFAS-CL, DFAS-KC and their supporting DAOs will assist DoN fund authorization holders/administrators in the review, research and correction of NULOs. This support will include the reconciliation of contract payment records to official accounting records, providing document histories and copies of payment vouchers.

(b) Upon receipt of the monthly notification report, the fund authorization holder/administrator will immediately begin research to determine the cause of each condition 3 NULO. The fund authorization holder/administrator will work closely with their DFAS counterpart to effect a resolution of the NULO; or, document why the NULO should be readdressed to another fund authorization holder/administrator or reclassified as a UMD.

(c) The monthly NULO notification report will highlight all condition 3 NULOs that are 4 months or older. This will serve as a reminder/warning to fund authorization holders/ administrators of the requirement to either resolve the NULO through review and research before the 6 month time limit or automatically remove the NULO by obligating the difference between the disbursement and the posted obligation. DFAS is to provide all research that they acquired during the 120 day period to the fund authorization holders/administrators.

(d) If after 6 months, the condition 3 NULO still exists, as indicated on the Monthly NULO Notification Report, the fund authorization holder/administrator will immediately obligate funds to cover the over disbursement.

6. Contract Documentation Requirements. Documentation must be developed for all proposed disbursement corrections to be made in the accounting and/or bill paying systems. This documentation must also be retained for possible examination by both internal and external audit organizations.

(a) Corrections to disbursements may be necessary to both headquarters and field level contracts. For those major contracts serviced by DFAS-Columbus, a standard set of documentation requirements has been jointly established by the DoN and DFAS organizations. These standards and associated forms have been provided under separate cover. Copies may be obtained from the NAVCOMPT NULO Project Office.

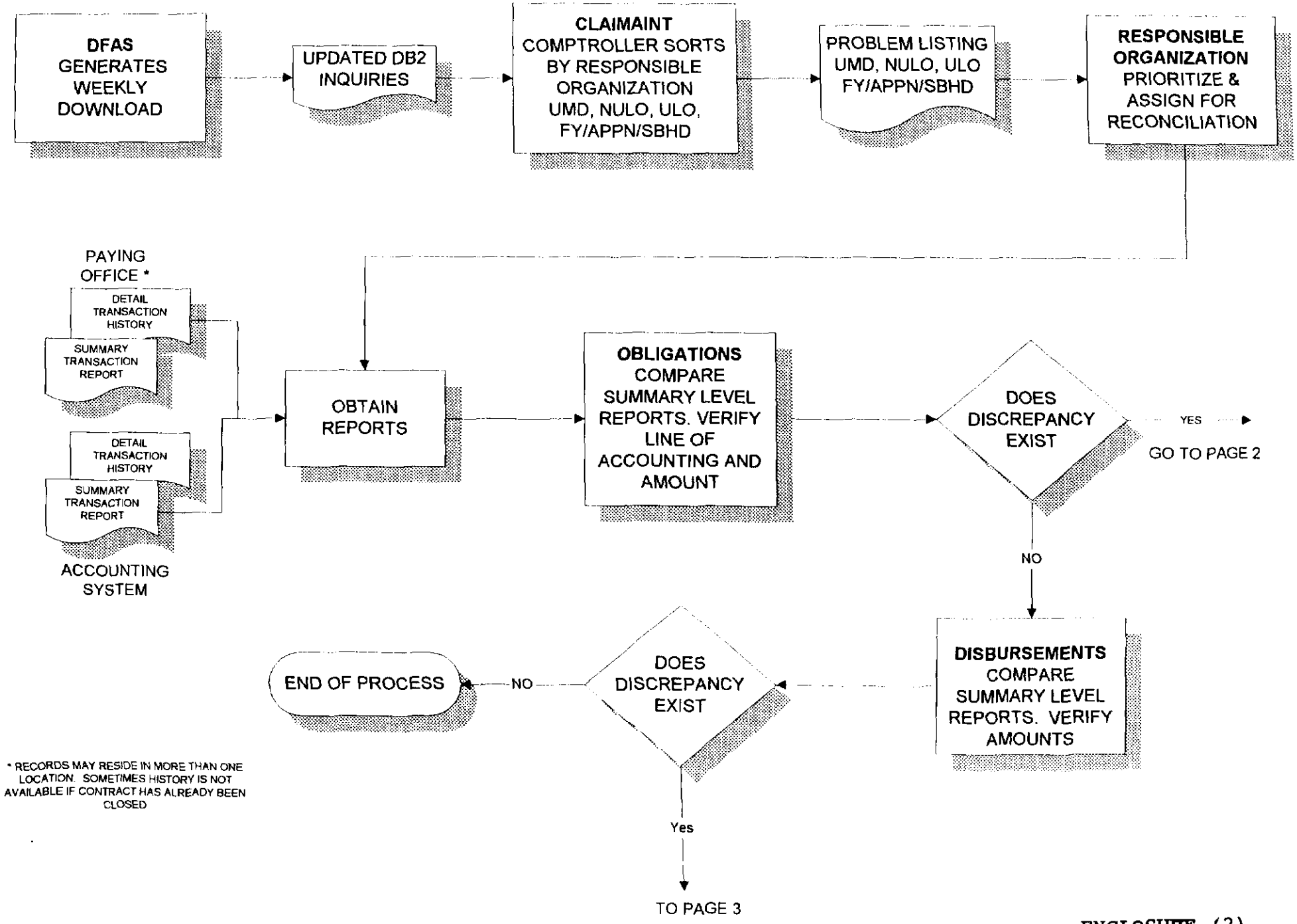
(b) For those cases where it has been determined that an obligation must be recorded because the 180 day period has lapsed, an obligating document should be prepared and retained by the fund authorization holder/administrator. This obligating document should be the normal instrument which would be used to modify the existing contract, but does not require the issuance of a contract modification. However, a copy of the obligating document should be provided to the contracting organization and to the servicing DFAS organization.

(c) Fund authorization holders/administrators should continue to research those obligation adjustments where there is reasonable likelihood that the disbursement can be corrected.

(d) Enclosure (2) provides an overview of the contract analysis and reconciliation process for those contracts serviced by DFAS Columbus. This overview is intended to illustrate the actions necessary to develop a proper and complete contract reconciliation package. Access to the DFAS Columbus Center's payment system, Mechanization of Contract Administration Services (MOCAS), can be obtained by contacting the NAVCOMPT NULO Project Manager.

CONTRACT RECONCILIATION OVERVIEW

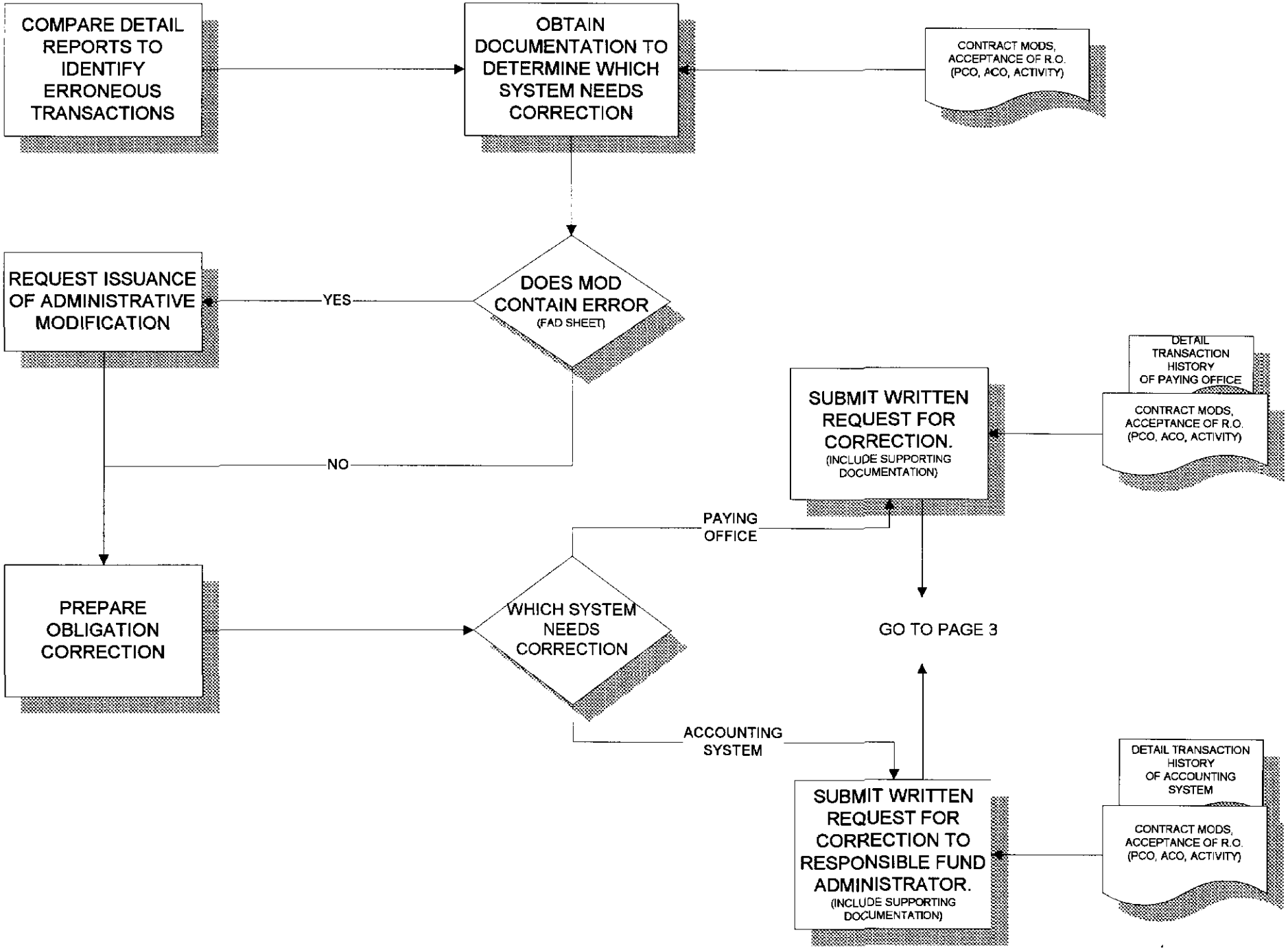
PRELIMINARY STEPS



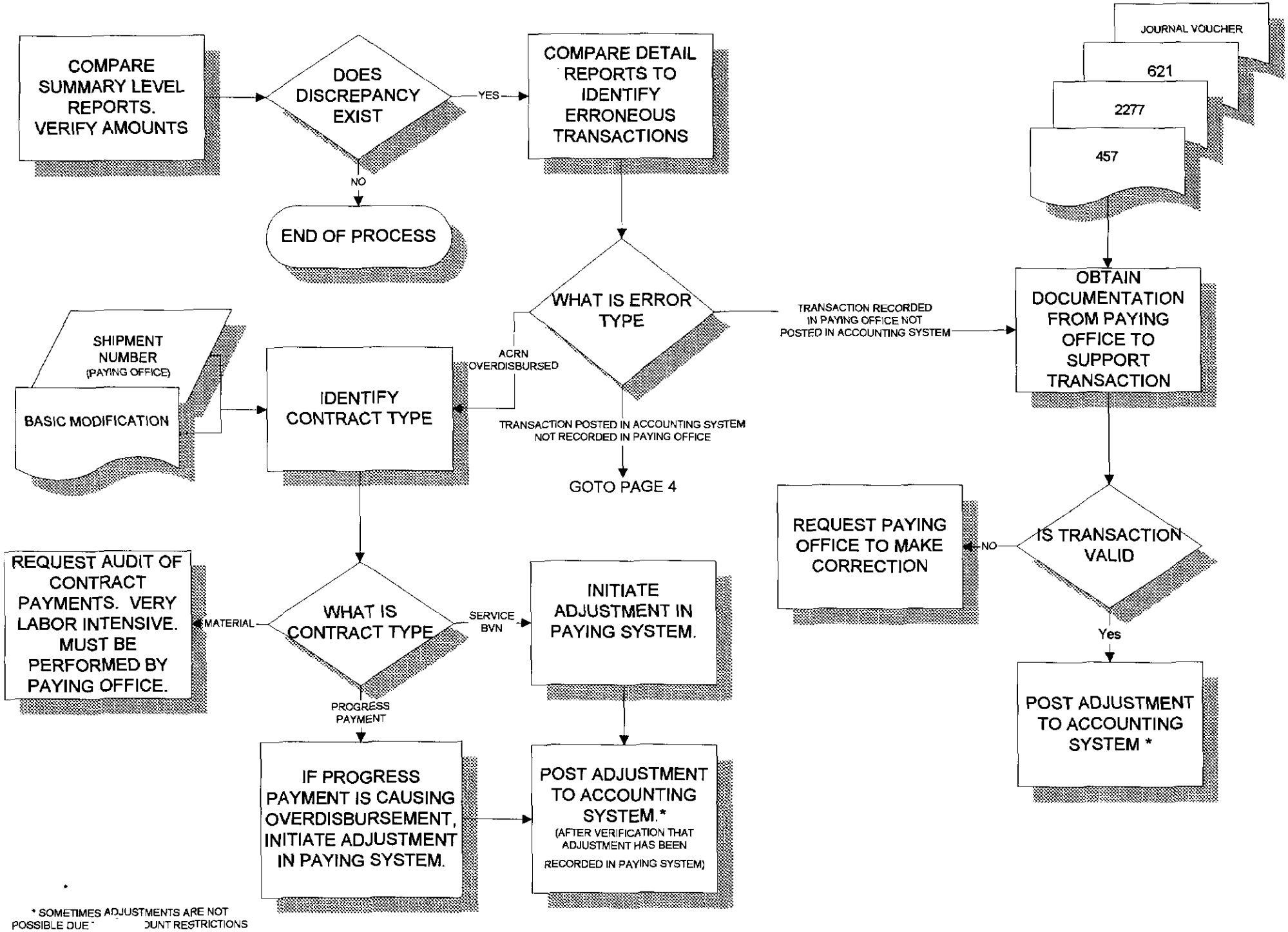
* RECORDS MAY RESIDE IN MORE THAN ONE LOCATION. SOMETIMES HISTORY IS NOT AVAILABLE IF CONTRACT HAS ALREADY BEEN CLOSED

ENCLOSURE (2)

OBLIGATION RECONCILIATION



DISBURSEMENT RECONCILIATION



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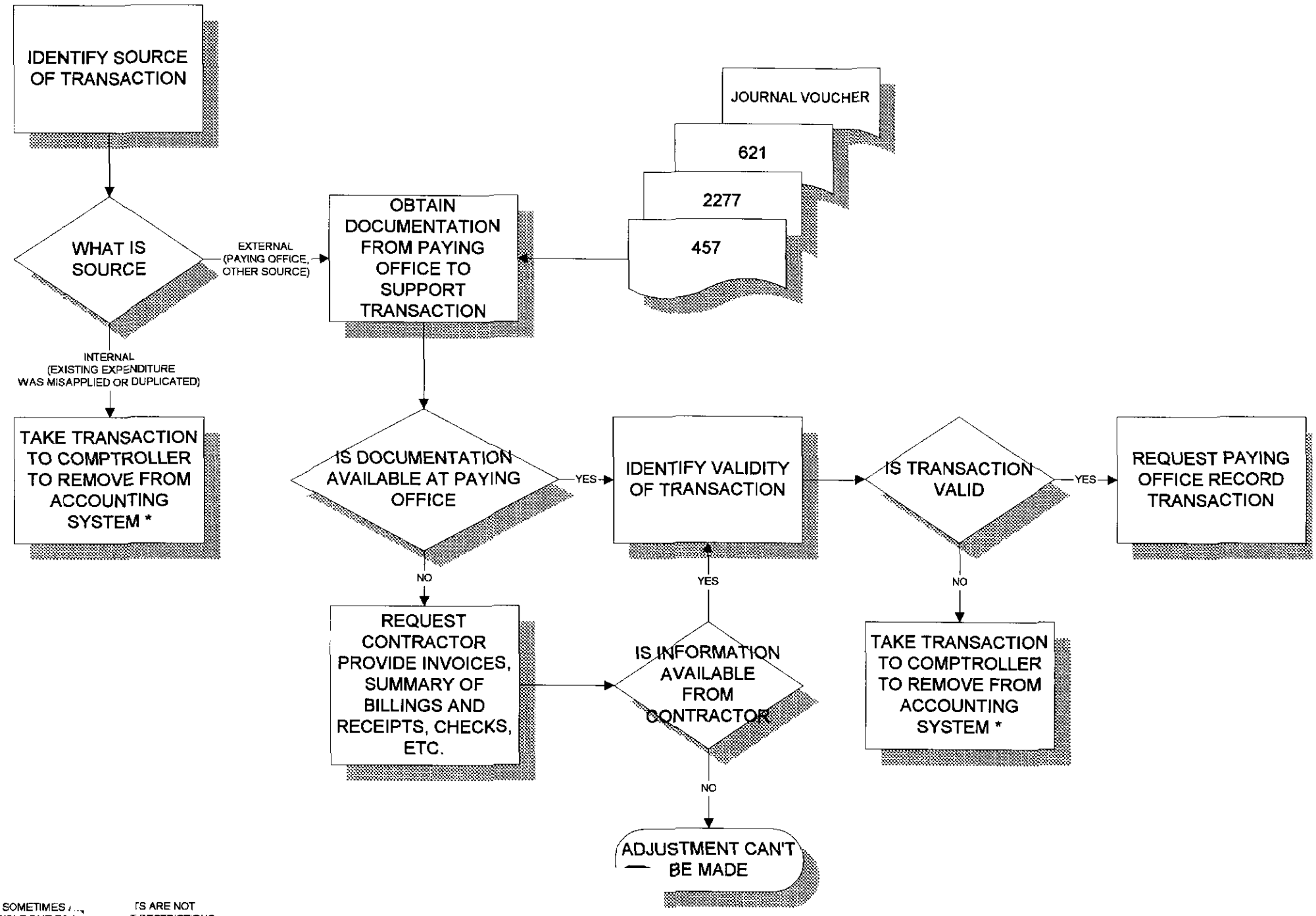
DISBURSEMENT RECONCILIATION



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