

SECTION 13 -- APPLICATION OF OBLIGATIONS

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Summary of Changes

Includes material formerly in section 11.11.

13.1 What are included in obligations?

Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that will require payments during the same or a future period. A law requires you to record obligations as documentary evidence of the obligations (31 U.S.C. 1501). A law also requires you to maintain certifications and records showing that amounts have been obligated in a form that makes audits and reconciliations easy (31 U.S.C. 1108).

For appropriated entitlements during the budget execution phase, the general rule is that the Federal Government is not obligated to pay until an appropriation is enacted. Do *not* record an obligation until the appropriation is enacted.

Use the same principles to determine which fiscal year's appropriation is to be charged at the end of the fiscal year that you use to determine the obligations for any period within the fiscal year, unless otherwise specified.

13.2 What obligational transactions are classified as personnel compensation and benefits?

As a general rule, include amounts earned. These include:

- Amounts earned by employees and others during the reporting period.

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- Charges based on salaries and wages (such as living and quarters allowances; equalization allowances under 5 U.S.C. 3373, and the employer's share of contributions to the retirement fund; premiums for insurance, including health and life insurance; and FICA taxes). They are obligations at the time the salaries and wages are earned.
- Severance pay. Report this as an obligation of the pay period covered, on a pay period by pay period basis, as it is earned.
- Personnel benefits in the form of authorized reimbursable expenses estimated to be paid to employees for real estate, temporary subsistence, and other expenses incident to dislocation at the request of the Federal Government. Report personnel benefits as an obligation at the time individual travel orders are approved. This is because the costs are a bona fide need of the agency at the time the travel order is approved and the Federal Government has a statutory duty to reimburse the employee. See below for parallel treatment of travel and transportation expenses incident to dislocation at the request of the Federal Government.
- Other allowances (such as uniform allowances and incentive awards). Report them as an obligation when they become payable to the employee.
- Unemployment compensation payments to the Department of Labor for former Federal employees. Report obligations when the agency receives the bills rendered by Labor.

Do *not* include annual leave. Annual leave is not generally funded and will not be reported as an obligation until it becomes due and payable as terminal leave or taken in lieu of a lump sum payment. However, some revolving funds are required to recover the cost of annual leave through fees. Therefore, if you make transfers of people between such revolving funds, you also must transfer budgetary resources in the amount of any funded annual leave along with the people. If you make transfers of people from revolving funds to non-revolving funds, you also must transfer budgetary resources in the amount of any funded annual leave, but you credit the resources to miscellaneous receipts.

13.3 What obligational transactions are classified as travel and transportation?

As a general rule, include amounts for travel and transportation that are needed during the reporting period and:

- For which travel and transportation expenses have been incurred, or
- For which a valid contract for services has been made.

A valid contract for services is a binding agreement for specific services. Transportation requisitions, Government bills of lading, and shipping orders are *not* binding agreements for specific goods or services.

Report travel and transportation expenses incident to dislocation at the request of the Federal Government as an obligation on the basis of individual travel orders, for the same reasons cited above for the treatment of personnel benefits incident to dislocation at the request of the Federal Government.

13.4 What obligational transactions are classified as rent, communications, and utilities?

These include amounts owed for services received or for the use of property during the reporting period.

When bills are rendered for a period beginning in one month and ending in the following month, don't include the services received subsequent to the latest billing date. 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, you should record it as an obligation.

- *Postage* -- Include the cost of postage stamps purchased and the amount owed for metered or penalty mail dispatched during the reporting period. Penalty mail is Government mail that specifies that there will be a fine or penalty if used for personal purposes.
- *Contracts involving recurring services (such as rent)* -- Generally, the contract will cover only the period funded. Record the full amount of the contract for these services as an obligation. For example, record the annual amount as an obligation for a contract funded by an annual account; record the full amount for a two-year contract when funded by a two-year appropriation.

NOTE: It is a violation of the Antideficiency Act (31 U.S.C. 1341(a)) to involve the Federal Government in a contract or obligation for payment of money before an appropriation is made, unless authorized by law.

- *General Services Administration (GSA) rental space* -- Include payments owed (both earned and advanced) on the basis of bills rendered by GSA pursuant to regulation.
- *Contracts with renewal options* -- Include the amount required to cover the basic period and any penalty charges for failure to exercise options.

13.5 What obligational transactions are classified as printing and reproduction, other contractual services, supplies and materials, and equipment?

These include orders placed and contracts awarded. The law requires you to have documentary evidence of binding agreements, orders, or other legal liabilities before an amount may be recorded and reported as an obligation (31 U.S.C. 1501).

The head of an executive agency may enter into a contract for severable services for a period that begins in one fiscal year and ends in the next fiscal year, if (without regard to any option to extend the period of the contract) the contract period does not exceed one year. Severable services are services that are performed on a regular basis over a period of time, such as housekeeping and guard services. This modifies the longstanding rule that for lawfully obligating a fiscal year appropriation the supplies or services ordered are intended to meet a bona fide need of the fiscal year in which the need arises or to replace stock used in that fiscal year.

Do *not* include in the amounts reported as obligations any administrative commitments like requisitions within an agency, invitations for bids, or any other action short of a binding contract, order, or other similar agreement (such as amounts identified for contemplated procurement).

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Use the following procedures for specific types of contracts and orders listed below:

- *Cost-plus-fee and other types of contracts without a fixed price* -- Include as obligations the total estimated costs of contracts (including the total fixed fee, if any). Report this figure for the month during which the contract is let. Report subsequent adjustments upward or downward in the estimated cost (or the fixed fee, if any) in subsequent reports. If a maximum price is stated, report the maximum amount when the contract is let.
- *Fixed price contracts with escalation, price redeterminations, and incentive provisions* -- For a contract with an incentive clause, report the target or billing price. Otherwise, report the fixed price stated in the contract.
- *Continuing contracts subject to the availability of appropriations* -- Report as an obligation the Federal Government's total estimated legal liability, for example, the amount you told the contractor is available for payment under the particular contract and any potential Federal Government cancellation and/or termination costs. If any subsequent agreements result in a change, modify the reported amount.
- *Letters of intent and letter contracts* -- If the letters constitute binding agreements under which the contractor is authorized to proceed, report the maximum liability indicated in the letters as obligations. The maximum liability under a letter of intent or a letter contract is the amount necessary to cover expenses that the contractor is authorized to incur prior to the execution of a definitive contract.

Do not include the amounts as obligations if the letters merely indicate an intention on the part of the Federal Government to enter into a contractual relationship at a later date.

- *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. For contracts that provide for delivery only when and if requested by the Federal Government, where the Government assumes no specific obligation, only report actual orders for delivery.
- *Purchase orders* -- Include orders under which the Federal Government assumes a specific obligation for material or services not reflected in the items described above.
- *Orders involving a law which requires you to place orders with another Federal Government agency* -- When a law or regulation requires you to place certain orders with another Federal Government agency, record them as obligations at the time the order is issued.
- *Orders involving deliveries of stock from other appropriations or funds* -- Whether or not you include an amount as an obligation when an order is placed for deliveries of stock from other appropriations or funds (other than those covered by the previous paragraph) depends largely upon how the supplying activity functions with respect to the particular transaction:
 - ▶ When you order common-use standard stock items that the supplying activity has on hand or on order for prompt delivery at published prices, record the obligation at the time the order is placed.

- ▶ When you order stock items (other than those covered above), record the obligation at the time the supplying activity issues a formal notification that the items are on hand or on order and will be released for prompt delivery.
- ▶ When your order involves execution of a specific contract, record the obligation when the supplying activity enters into the contract. You can also choose to record the obligation when you place the order with the supplying activity, but you will need to make adjustments if by the end of the year the supplying activity does not have the items on hand or on order.
- *Other intragovernmental orders* -- Include orders placed and accepted under the project order law (41 U.S.C. 23), pursuant to the Economy Act (31 U.S.C. 1535), and similar legislation.

You can only obligate amounts pursuant to orders under the Economy Act for the same period as the ordering account.

The Antideficiency Act prohibits overexpenditure of funds as well as overobligation. This means that you may incur obligations against intragovernmental receivables, but you may *not* disburse into a negative position. Do not incur such obligations unless your cash control system will prevent over-disbursement. Whenever practicable, you should advance cash to the supplying agency at or before the time you order goods or services. This is extremely important when the supplying agency does not have sufficient working capital to pay bills in anticipation of reimbursement.

13.6 What obligational transactions are classified as lands and structures?

These include contracts entered into in procuring land and interest in land, buildings and other structures, additions to buildings, nonstructural improvements, and fixed equipment.

- *Procurements involving condemnation proceedings*- Include an estimated amount for the price of the land at the time you ask the Attorney General to start proceedings, adjusted to the amount of the payment to be held in escrow where there is a declaration of taking.
- *Lease-purchases and capital leases covered by the score keeping rules developed under the Budget Enforcement Act* --
 - ▶ When the Federal Government enters into the contract, record obligations in the amount of the present value of the lease payments, discounted using the Treasury interest rate used in calculating the budget authority provided for the purchase.
 - ▶ During the lease period, report obligations equal to the imputed interest costs (that is, the financing costs Treasury would have incurred if it had issued the debt to acquire the asset).

13.7 What obligational transactions are classified as grants and taxes payable to State and local governments?

Unless otherwise required by law, determine the amount of obligations to include for Federal grant-in-aid programs and taxes payable to States and political subdivisions as follows:

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- For grants that involve no administrative determination and are automatically fixed by a statutory formula or specified by law, report the obligation as:
 - ▶ The amount determined by the application of the formula or the amount appropriated, whichever is smaller.
 - ▶ When the amount becomes available to the grantee.
- For grants based upon approved financial programs, report obligations only for the period of time for which the financial requirements have been established and approved and for which you have administratively determined that funds will be paid to grantees. For example, if requirements have been established and approved for one month and you determine that payment will be made on the basis of such approval, report obligations on the requirements for that month.
- For grants based upon approved construction and related projects, report as obligations the Federal share of the project when the project is approved by the appropriate Federal authority.
- For any other grants involving administrative determination, report obligations in the amount approved for payment when the determination is made.
- Report payments in lieu of taxes as obligations when the taxes would be due.
- Report taxes and assessments based on property valuation as an obligation when payment is due, unless further action by the Congress is necessary to authorize payment. For revolving funds and other cases specifically authorized by law, report taxes as they accrue.

Determine obligations for grants administered through the letter-of-credit financing mechanism the same as outlined above. Since drawdowns on letters of credit are not ordinarily coincident with when the obligation is incurred, be sure to record these obligations *prior* to such drawdowns.

Under either the automatic grants or those based on administrative determinations, the fact that recipient agencies are required to match Federal contributions does not affect the Federal Government's obligation. However, whenever you determine that future payments on an approved program should be modified or discontinued, adjust the previously reported obligation accordingly.

13.8 What obligational transactions are classified as other grants, subsidies, and contributions?

Determine the amount of obligations for grants, subsidies, and contributions other than those referred to above, as follows:

- Record amounts based upon contracts or agreements when you enter into the contract or agreement.
 - ▶ For direct loan programs covered by the Federal Credit Reform Act of 1990, record the subsidy cost as an obligation in the credit program account when you incur the direct loan obligation in the credit financing account.

- ▶ For guaranteed loan programs, record the subsidy cost as an obligation in the credit program account when you make the loan guarantee commitment.
- Record amounts to be paid in accordance with treaties at the beginning of the period for which the money is appropriated.
- Record all other grants, subsidies, and contributions when the payment is made.

13.9 What obligational transactions are classified as pensions, annuities, insurance claims, refunds, awards, and indemnities?

These include amounts determined administratively or judicially to be due and payable when no further action is required by law to authorize payment.

13.10 What obligational transactions are classified as interest and dividends?

These include the amount of interest owed or dividends declared during the reporting period.

13.11 What obligational transactions are classified as investments?

Investments are for securities issued by non-Federal entities and securities issued by Government-sponsored enterprises. Include obligations and outlays when cash leaves the Federal Government, that is, when the security is purchased. (See section 23 for the treatment of U.S. Government securities.)

13.12 What obligational transactions are classified as guarantees?

Include the amount of each valid claim when you determine the claim is payable.

For further instructions on obligations by object class, see Section 83 of OMB Circular No. A-11. You can find it at: <http://www.whitehouse.gov/OMB/circulars>.