



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

ORDER

DOT 2700.6A

5-11-89

Subject: PREREQUISITES FOR RECORDING AND REPORTING OF OBLIGATIONS

1. PURPOSE. This Order prescribes the criteria for valid obligations and the prerequisites for recording and reporting them. It implements the requirements of Sections 1501(a) and 1108(c) of Title 31 United States Code for recording obligations and certifying related reports.
2. CANCELLATION. DOT 2700.6, Prerequisites For Recording And Reporting of Obligations, dated 7-25-69.
3. SCOPE. The provisions of this Order apply to all organizations, appropriations, and funds controlled by the Department of Transportation.
4. POLICY. Only transactions meeting the criteria of this Order may be recorded and reported as obligations of the Government. All such transactions will be promptly recorded against applicable appropriations or funds during the period of availability of those appropriations or funds. Each obligation will be supported by documentary evidence. The validity of, and the existence of documentary support for, obligations will be certified. A fiscal year appropriation may be obligated only to meet a bona fide need arising in the fiscal year for which the appropriation was made. Administrative commitments in the form of requisitions within an agency, invitations for bids or any other action short of a binding contract, order or other similar agreement will not be reported as obligations.
5. DEFINITION.
 - a. Obligation. An action during a given period which legally binds the Government to disburse funds. Examples of such actions include placing orders, awarding contracts, and receiving goods or services.
6. CRITERIA FOR RECORDING OBLIGATIONS.
 - a. No amount will be recorded as an obligation unless it is supported by documents evidencing one of the following:
 - (1) A binding agreement in writing between the parties thereto, including Government agencies: (a) in a manner and form and for a purpose authorized by law; and (b) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real

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property to be purchased or leased, or work or services to be provided.

- (2) A valid loan agreement, showing the amount of the loan to be made and the terms of repayment thereof.
 - (3) An order required by law to be placed with a Government agency.
 - (4) An order issued pursuant to a law authorizing purchases without competition when: (a) necessitated by public exigency; or (b) for perishable subsistence supplies; or (c) within specific monetary limitations.
 - (5) A grant or subsidy payable: (a) from appropriations made for payment of or contributions toward, sums required to be paid in specific amounts fixed by law or in accord with formula prescribed by law; or (b) pursuant to agreement authorized by, or plans approved in accord with and authorized by law.
 - (6) A liability that will result from pending litigation.
NOTE: The General Accounting Office (GAO) has made three rulings on instances that require obligations to be recorded. In 35 Comptroller General 185, GAO stated that obligations should be recorded only in cases where the Government is definitely liable for the payment of money out of available appropriations and the pending litigation is for the purpose of determining the amount of the Government liability. In 34 Comptroller General 418, GAO ruled that an obligation should be recorded when a request has been made to the Attorney General to institute land condemnation proceedings. In 54 Comptroller General 962, obligations may be recorded in certain cases pertaining to the impoundment of funds. However, in most circumstances, potential Departmental liability in litigation should not be recorded as an obligation.
 - (7) Employment or services of persons or expenses of travel in accord with law.
 - (8) Services provided by public utilities.
 - (9) Any other legal liability of the United States against an appropriation or fund legally available therefor.
- b. Data processing listings of the obligating documents may be used if an audit trail exists back to the basic documents. Responsibility for certifying that proper documentary support is available as required by Section 1108(c) of 31 United States Code, will in no way be relieved because of dependence on data processing listings.

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- c. In any other situation where positive knowledge exists that a valid obligating document does exist but the document is not immediately available, the amount of the obligation shall be recorded, supported by a signed statement by an authorized official identifying the document in all respects. Prompt action will be taken to obtain the actual document.
- d. In transactions where the exact amount of an obligation is not immediately determinable, it should be estimated. The estimated amount and a description of the basis for, and method of computation of, the estimated amount will be recorded on the obligating document. Appropriate adjustments will be made when the actual obligation is determined.

7. RECORDING OBLIGATIONS.

a. Personal Services and Benefits.

- (1) Gross wages payable to employees are obligated in the period when they were earned. Obligations for personal services will be recorded and reported on an accrual basis to the end of the applicable month and not merely to the end of a pay period ending within the month. Charges based on wages, such as living and quarters' allowances, and the employer's share of contributions made to the retirement funds, to health and life insurance premiums and to FICA taxes, are obligated at the same time the respective wages are earned.
- (2) Other allowances, e.g., uniform and incentive awards, are obligated when they become payable to the employee.
- (3) Annual leave is not generally funded and will not be reported as an obligation until it becomes due and payable as terminal leave. However, when transfers are made between revolving funds, budgetary resources in the amount of any funded annual leave must be transferred along with the people. Transfers of people from revolving funds to nonrevolving funds must also be accompanied by transfers of budgetary resources in the amount of any funded annual leave, but the resources must be credited to miscellaneous receipts.
- (4) Payments made to employees for Permanent Change of Station (PCS) will be obligated on the basis of individual travel orders.

- (5) Severance pay is obligated during the pay period affected by a reduction-in-force action, on a pay period by pay period basis, as it is earned.
- b. Travel and Transportation. Generally, travel and transportation expenses are recorded in the month incurred or purchased. If a Temporary Duty (TDY) trip extends over more than one fiscal year, the charges will be allocated to the fiscal year in which they were incurred.
- c. Rental Agreements and Leases of Real and Personal Property. The amount recorded as an obligation must be based on the agreement or lease, or on a written administrative determination of the amount due under its provisions.
- (1) Rental agreements that may be terminated by the United States Government at any time, without notice and without incurring any obligation to pay termination costs, will be obligated each month in the amount of the rent for that month.
- (2) Under rental agreements that may be terminated by the United States Government without cost, upon giving a specified number of days notice of termination, an obligation must be recorded upon execution of the agreement in the amount of rent payable for the number of days notice called for in the agreement. In addition, an obligation must be recorded each month in the amount of the rent payable for that month. When the number of days remaining under the lease term is equal to the number of days advance notice required under it, no additional obligation need be recorded.
- (3) Under rental agreements that require specified dollar payments in the event of termination, an obligation must be recorded upon execution of the agreement in the amount of the specified minimum dollar payment. In addition, an obligation must be recorded each month in the amount of the rent payable for that month. When the amount of rent remaining payable under the terms of the agreement is equal to the obligation recorded for the payment in the event of termination, no additional monthly obligation need be recorded.
- (4) Obligations to General Services Administration (GSA) for standard-level user charges are recorded from the GSA bill.
- d. Commercial Contracts and Orders. Obligations for commercial contracts and orders are recorded as follows:

- (1) Firm Fixed-Price Contract. An obligation is recorded when the contract is executed for the total amount stated in the contract.
- (2) Fixed-Price Contract with an Escalation, Price Redetermination, or an Incentive Provision. An obligation is recorded when the contract is executed for the total amount of the fixed price stated in the contract or the target/billing price in the case of a contract that contains provisions for escalations, price redetermination, or incentives.
- (3) Cost-Plus-Fee and Other Types of Contracts Without a Fixed Price. Include obligations on the basis of the total estimated costs of contracts (including the total fixed fee, if any). This figure will be reported for the month during which the contract is let, and subsequent adjustments upward or downward in the estimated cost (or the fixed fee, if any) will be reflected in subsequent reports. If a maximum price is stated, the maximum amount will be reported at the time the contract is let.
- (4) Contracts for Variable Quantities. For contracts that mention several quantities as alternatives, obligate only 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, where the Government assumes no specific obligation, only orders for delivery will be obligated.
- (5) Letter Contracts and Letters of Intent. Where such letters constitute binding agreements under which the contractor is authorized to proceed, obligations will cover the maximum liability indicated in the letters. If the letters merely indicate an intention on the part of the Government to enter into a contractual relationship at a later date, then the amounts will not be treated as obligations. The maximum liability under a letter of intent or a letter contract shall be the amount necessary to cover expenses that the contractor is authorized to incur prior to the execution of a definitive contract. NOTE: Comptroller General Decision B-110609, dated January 14, 1954, states that "the use of letter contracts or letters of intent should be resorted to only under conditions of the utmost urgency."

(6) Multiyear Procurement Contract. An obligation for a multiyear procurement contract must be recorded in the amount of the price of the quantities specified for delivery under the first program year's requirement, and the amount must be identified with that program year. Unless the contract is funded fully at inception, each time the contractor is notified that funds are available to cover another program year's requirement, an obligation must be recorded in the amount of the price of the quantities specified for delivery and must be identified with that program year. If the contract is canceled, an obligation must be charged to the program year current at the time of cancellation to cover the Government liability under terms of the contract.

(7) Purchase Orders.

- (a) A purchase order is an obligation when issued in the amount stated, if the purchase order represents acceptance of a binding written offer of a vendor to sell specific goods or furnish specific services at specific prices, or the purchase order was prepared and issued in accordance with small purchase or other simplified purchase procedures.
- (b) A purchase order requiring acceptance by the vendor before a firm agreement is reached must be recorded as an obligation in the amount specified in the order at the time of acceptance. Evidence of this acceptance must be retained in the files. If written acceptance is not received, delivery under the purchase order is evidence of acceptance to the extent of the delivery.

e. Orders Placed with United States Government Agencies.

- (1) Required By Law. An order required by law to be placed with an United States Government agency, such as an order required to be placed with: (a) Federal Prison Industries (18 United States Code 4124), (b) Government Printing Office (44 United States Code 111) or, (c) General Services Administration, must be recorded as an obligation by ordering agency in amount stated in the order at the time it is issued.
- (2) Economy Act Orders. An Economy Act order is an order for goods or services that one Government agency (ordering agency) places with another Government agency (performing agency). It cannot be recorded as an obligation by the ordering agency until the

performing agency provides written notification of acceptance. Undelivered Economy Act orders issued against annual or multiple-year appropriations must be adjusted downward when the appropriation is no longer available for obligation. The amount of the adjustment shall be the difference between the value of the order or orders and the obligations incurred by the performing agency.

(3) Orders Involving Deliveries of Stock.

- (a) If the order involves common-use standard stock items that the supplying agency has on hand or on order for prompt delivery at published prices, the obligation is incurred at the time the order is placed by the requisitioning agency.
- (b) If the order involves items that do not meet the criteria mentioned above, the ordering agency cannot record an obligation until the supplying agency accepts the order.

8. REPORTS AND CERTIFICATIONS OF VALIDITY AND SUPPORT OF OBLIGATIONS.

- a. Reports to the Office of Management and Budget (OMB). The Secretary of Transportation is required by Section 1108(c) of 31 United States Code to include in requests for appropriations to OMB, a report as to the validity of obligations when that data is used in those requests. To provide support for these statements, and as required by Section 1501(a) of 31 United States Code, the Assistant Secretary for Administration for the Office of the Secretary of Transportation and the Heads of Operating Administrations, as appropriate, will include a certification statement with each report of obligation data submitted in connection with requests for appropriations. This statement will be in accordance with the most current OMB Circular A-11. In the absence of such designated officials, acting officials may sign "for and in the absence of" those individuals. The responsibility for this certification may not be redelegated. The obligations reported in the Report on Budget Execution (SF 133) must meet the criteria prescribed in paragraph 6 and be supportable by work papers or data processing listings retained for audit.
- b. Reports to the Department of Treasury. The Year-End Closing Statement, TFS Form 2108, reports obligations which must meet the criteria prescribed in paragraph 6 and

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be supportable by work papers or data processing listings retained for audit. Volume I, Chapter 2-4230.50 of the Treasury Financial Manual requires this report to have the following certification: "I hereby certify that the amounts shown in this report are correct. All known transactions meeting the criteria of 31 United States Code 1501(a) have been obligated and are so reported." This certification will be signed by a duly authorized officer of the Operating Administration.

- c. Reconciliation of Obligations. Obligation documents will be reconciled quarterly with the controlling accounts for unliquidated obligations. As of September 30 of each year, source documents must be analyzed to ensure all transactions affecting the appropriation and fund balances have been recorded properly, accurately, completely, and on a timely basis. During this review, the validity of all obligations will be substantiated and adjustments will be processed accordingly. These actions will be accomplished in support of the certifications required above. Work papers for these reconciliations and review will be retained for audit.
9. IMPLEMENTATION. All pertinent guidance provided in this Order will be made available to all personnel throughout the Department who are in any way connected with recording and reporting obligations. This Order is effective when signed and must be fully implemented within 90 days of the date of signature. Copies of instructions implementing its provisions will be forwarded to the Assistant Secretary for Administration, Office of Financial Management.

FOR THE SECRETARY OF TRANSPORTATION:

Melissa J. Allen
For the Assistant Secretary
for Administration