

Department of Commerce Policy for Undelivered Obligations (UDOs)

I. Purpose:

This document prescribes the Department of Commerce's (Department) policy and minimum required procedures for the review, validation, and certification of all undelivered obligations (UDOs). Stronger policies and procedures are necessary to ensure the Department's obligations are adequately monitored and deobligated when appropriate. Effective monitoring will reduce risks associated with inaccurate undelivered obligations, support accurate financial reporting, and ensure proper use of the Department's budgetary resources. This policy is intended to create a framework that fosters the ongoing, recurring review of undelivered orders.

II. Scope:

This policy applies to all funds of the Department.

III. Policy:

All Department obligations must be continuously monitored. Open obligations must be reviewed and validated by bureaus regularly. Based upon the results of the open obligations review, obligations that are no longer valid shall be deobligated or adjusted. Each bureau's Chief Financial Officer and Procurement Official are required to annually certify that all open obligations have been reviewed and applicable open obligations have been deobligated or adjusted. Reviews will be performed jointly by all stakeholders, including representatives from the following functional areas: finance, acquisitions, and program offices. All supporting documentation will be retained for audit purposes following the date of deobligation for the period provided in guidance from the National Archives and Records Administration in General Records Schedule (GRS) Transmittal 24 (currently six years). Department-wide metric(s) will be used to measure progress, as illustrated in Exhibit B.

This Department-wide policy prescribes the overall framework for obligation review and monitoring. Bureau finance offices should collaborate with acquisitions personnel to develop, implement, and regularly update their bureau's internal policy and written procedures to execute the Department-wide policy.

IV. Effective Date:

The policy is effective upon issuance.

V. Review Selection Criteria:

Identify undelivered obligations that are **past their period of performance** and that have had **no activity for over a year**. If period of performance data is not available in the system of record, review all balances that have had no activity for over a year.

Thresholds

Bureaus may use the thresholds to reduce their *review* population, not reporting population, for the UDO Metrics, if their transactions meet the criteria below:

<u>UDO Category</u>	<u>Criteria</u>	<u>Dollar Threshold</u>
Travel	Category total > \$2.5 Million	Review balances > \$500
Non-Travel	Sub-category > \$250.0 Million (e.g., Grants, Contracts, other non-travel)	Review balances > \$100,000

These thresholds do not exempt the amounts below the threshold from reporting but are merely a way to reduce your review population.

VI. **Reporting Frequency:**

- A. Quarterly for Travel balances
- B. Semi-annually, as of December 31st and June 30th, for Non-Travel balances

VII. **Roles and Responsibilities:** (Minimum Requirements)

A. **Identification**

Bureau financial personnel (at the bureau itself, not a bureau service provider) will notify program personnel of undelivered obligations meeting the review selection criteria (Section V).

B. **Review**

Bureau finance staff should work through their program offices on an ongoing basis to review selected UDOs. Bureau program office personnel will review undelivered obligations selected by financial personnel to determine whether performance or delivery of goods or services has occurred and determine which undelivered orders should be deobligated. Only obligations that are expected to have no additional activity should be recommended for deobligation. Contracts and task orders must be available for closeout and a final invoice received from the contractor before proceeding with deobligation. While an agency may not record a deobligation of funds in its financial management system without closing the related contract, the agency has reasonable administrative discretion in the procedures it uses to determine whether and when to consider a contract closed.

C. **Notification**

Bureau program office personnel should notify financial personnel of UDOs meeting the review selection criteria that should be deobligated. A detailed explanation is required for each UDO that meets the review selection criteria in Section V but not requested to be deobligated. For contracts and task orders, program officials should provide supporting contract closeout documentation, including evidence of receipt and acceptance of goods and/or services; final payment; and fulfillment of other contract terms and conditions, as

applicable (e.g., disposition of Government furnished property, subcontract reporting, release, final audit, etc.).

Personnel designated by the bureau should notify bureau acquisitions office personnel of UDOs to be deobligated from contracts and notify designated bureau grants officers of UDOs to be deobligated from grants. For contract actions, notification should include all supporting contract closeout documentation. However, an exception exists for obligations that fall under guidance issued in opinions of the Department's Office of General Counsel, which have stated some balances may be deobligated even in cases where the documentation is no longer attainable in a practical manner, in that reasonable administrative discretion is allowed in the procedures used to determine whether and when to consider a contract closed.

D. Deobligation

Bureau acquisitions office personnel should deobligate and closeout, as appropriate, undelivered obligations from contracts and task orders that are considered available for closeout based on the notification (e.g., C.Request) from designated bureau personnel and the supporting documentation (e.g., receipt and acceptance of goods/services with final invoice required for contract closeout) submitted by program office personnel. Similarly, bureau grants officers should deobligate, as appropriate, undelivered obligations from grants based on the notification (e.g., C.Request) from designated bureau personnel and the supporting documentation submitted by program office personnel.

Prior to deobligation, personnel designated by the bureau, should verify the dollar amount in their accounting system is accurate and substantiated by supporting documentation per documentary evidence requirements of 31 U.S.C. 1501 and ensure proper documentation exists to support both the validity of the obligation and the basis for deobligation.

E. Confirmation

Bureau acquisitions office personnel should provide to bureau finance staff the status of contract and task order actions selected for deobligations within 60 days of receiving notification of the selections for deobligation. An explanation should be provided for contract actions that were selected for deobligation but not deobligated. Program officials should coordinate with their acquisition service provider on milestones for completion of contract closeout activities.

VIII. Annual Certification:

Each bureau's Chief Financial Officer and Procurement Official must jointly certify, by **August 31**, to the full execution of the Department of Commerce's policies for undelivered obligations as of June 30 and attest that all open obligations, which were past their period of performance and have been inactive for over one year, were reviewed and deobligated, as appropriate. The delivery of bureau certification must be accompanied by a listing of open UDOs that met the review selection criteria (Section V) but were not deobligated, which includes the dollar total and an explanation for each UDO. Please refer to Exhibit A, *Annual*

Certification of Undelivered Obligations, at the end of this document for the certification letter format.

IX. **Due Dates for Fiscal Year 2022:**

Quarter	Measurement Date	Due Date	Travel Metric	Non-Travel Metric	Data with Explanations	Annual Certification
Q1	Friday, December 31, 2021	Friday, February 18, 2022	X	X	X	
Q2	Thursday, March 31, 2022	Friday, May 20, 2022	X		X	
Q3	Thursday, June 30, 2022	Wednesday, August 31, 2022	X	X	X	X
Q4	Friday, September 30, 2022	Wednesday, December 14, 2022	X		X	

X. **Definitions:**

- A. **C.Request**—The requisitioning system for the Department. This system interfaces with CFS (Core Financial System). CFS is one of the Commerce Business Systems (CBS) which is managed by the Department.
- B. **Deobligation**—The cancellation, downward adjustment, or deletion of a previously recorded obligation; may be attributable to cancellation or closeout of a project or contract, price revisions, corrections of amounts previously recorded, or differences between recorded obligations and payments made.
- C. **Expenditure** (also called outlays)—The incurrence of an actual liability in accordance with governmental authority (i.e., Antideficiency Act [31 U.S.C. 1513-1514] and the Congressional Budget and Impoundment Control Act of 1974 [2 U.S.C. 622(i)]).
- D. **Obligation**—A definite commitment that creates legal liability of the government to pay for goods and services ordered or received or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States.
- E. **Supporting Documentation**—Any documents that impacts or results in financial activity; not limited to documentation within the CFO office and includes any source material causing or resulting in a financial transaction.
- F. **Undelivered Order**—Obligation for which the goods or services, already ordered and obligated, have not been received. No expense or accounts payable liability is incurred until an order is delivered.
- G. **Undelivered Obligation**—Obligation with a balance remaining from the amount of orders placed, contracts or other binding agreements awarded, or services rendered after making any payments or processing deobligations; also referred to as open obligations.
- H. **Valid Obligation**—Under 31 U.S.C. 1501 (a), a valid obligation exists only when supported by documentary evidence of:

1. A binding agreement between an agency and another person (including an agency) that is (A) in writing, in a way 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 property to be bought or leased, or work or service to be provided;
 2. A loan agreement showing the amount and terms of repayment;
 3. An order required by law to be placed with an agency;
 4. An order issued under a law authorizing purchases without advertising (A) when necessary because of a public exigency; (B) for perishable subsistence supplies; or (C) within specific monetary limits;
 5. A grant or subsidy payable (A) from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law or under formulas prescribed by law; (B) under an agreement authorized by law; or (C) under plans approved consistent with and authorized by law;
 6. A liability that may result from pending litigation;
 7. Employment or services of persons or expenses of travel under law;
 8. Services provided by public utilities; or
 9. Other legal liability of the Government against an available appropriation or fund.
- I. **Validation**—The process of ensuring that transactions recorded in the accounting system are accurate. The goals of the validation process are to ensure the accuracy of posted transactions; to confirm whether the requirements for the product, service, or grant/loan payment still exist; and to initiate follow-through efforts to locate missing liquidations.

XI. **Authorities:**

- A. Section 1311 of Public Law 83-663 (68 Stat. 830), Documentary Evidence of Obligation
- B. 31 U.S.C. 1501, Documentary evidence requirement for Government obligations
- C. Treasury Financial Manual, Volume I, Part 2, Chapter 4200, Section 4225.60b, Undelivered Orders and Contracts
- D. Federal Acquisition Regulation (FAR), 4.804-1, Closeout by the office administering the contract
- E. OMB Circular A-11, Preparation, Submission, and Execution of the Budget
- F. OMB Circular A-123, Management's Responsibility for Internal Control
- G. 31 U.S.C. 1341, The Antideficiency Act
- H. GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 3, Obligations
- I. GAO: Principles of Federal Appropriations Law
- J. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government

Exhibit A

FY 20__ CFO Annual Certification of Undelivered Obligations

Bureau: _____

We hereby certify to the following:

Full execution of the Department of Commerce's policies for undelivered obligations as of June 30, _____ and attest that all open obligations, which were past their period of performance and have been inactive for over one year, were reviewed and submitted for deobligation, as applicable.

and

Explanations are complete, and the balances represent valid, open obligations or open obligations in the process of deobligation, which were past their period of performance and have been inactive for over one year, totaling \$_____.

Bureau Chief Financial Officer's Signature

Date

Printed Name and Title

Transactions submitted for deobligation have been verified and have been deobligated. Transactions submitted for deobligation that were not deobligated have been explained.

Bureau Procurement Official's Signature

Date

Printed Name and Title

Send this completed certification with explanations for open obligations, which are past their period of performance with over one year of inactivity, to the attention of the **Office of Financial Reporting and Policy** in the Office of Financial Management, Office of the Secretary for receipt no later than **August 31**.

Exhibit B

Undelivered Obligations (UDO) Metric

The UDO metric measures open balances past their period of performance and with one year or more of inactivity (Last Activity Date is over one year ago).

For the *Dollar Metric*, the numerator is the aggregate balance of remaining open obligations past their period of performance at the measurement date. The denominator for the unliquidated obligations metric captures cumulative balances that at any time, during the fiscal year, went beyond their period of performance with over one year of inactivity. Each fiscal year the metric baseline resets, with an October 1 baseline.

Similarly, the *Volume Metric* takes the number of unliquidated UDOs, meeting the measurement criteria, at the measurement date and divides it by the number of baseline transactions at October 1 that met the measurement criteria plus the number of any additional transactions, which at any time during the fiscal year up to the measurement date met the measurement criteria.

UDO Dollar and Volume Metric Calculations:

Amount (dollars; volume) of open UDOs past their performance end date

YTD amount (dollars; volume) of UDO's added since Oct. 1*

*Denominator only includes amounts added and ignores amounts deobligated during the fiscal year.

Both numerator and denominator only capture balances with one year or more of inactivity.

Measurement Periods:	Travel Q1, Q2, Q3, and Q4	Non-Travel Q1 and Q3
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UDO Metric Scoring:

Green	<= 5%
Yellow	> 5% and <= 10%
Red	> 10%

Example—Dollar Metric (Travel UDOs)

Given:

<u>Start of Fiscal Year (October 1)</u>	<u>Quarter 1</u>	<u>Quarter 2</u>
Baseline = \$14,000,000	A ₁ = \$2,000,000 R ₁ = \$7,000,000	A ₂ = \$4,000,000 R ₂ = \$11,000,000

The formula to calculate the Q2 Metric is
$$\frac{B+A_1+A_2-R_1-R_2}{B+A_1+A_2}$$
 (from prior page).

Based on this example we would calculate the Q2 metric as follows:

$$\frac{\$14,000,000 + \$2,000,000 + \$4,000,000 - \$7,000,000 - \$11,000,000}{\$14,000,000 + \$2,000,000 + \$4,000,000}$$

or

$$\frac{\$20,000,000 - \$18,000,000}{\$20,000,000} = \frac{\$2,000,000^*}{\$20,000,000} = 10\% \text{ [Yellow]}$$

* = ending UDO Balance

(The ending UDO balance should be checked for reasonableness against the ending balances of U.S. Standard General Ledger accounts 480100 and 490100)