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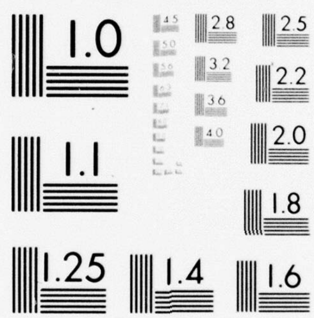
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UNLIQUIDATED OBLIGATIONS (ULO):
EFFECT ON PROGRAM ACQUISITION DOLLAR
STUDY REPORT
PMC 74-1

James W. Alford
GS-13, U S Air Force

FORT BELVOIR, VIRGINIA 22060

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DEFENSE SYSTEMS MANAGEMENT SCHOOL

STUDY TITLE: Unliquidated Obligations (ULO):

Effect on Acquisition Program Dollars

STUDY GOALS: To discuss the responsibility for the surveillance of unliquidated obligations, explain what is currently being done to reduce unliquidated obligations for the release of excess funds, and to evaluate methods to improve the procedures for liquidating obligations.

STUDY REPORT ABSTRACT

The management of unliquidated funds has been a problem of long standing. The existing procedures for the routine liquidation of obligations are reviewed to determine their effectiveness, and the responsibilities of the participating organizations. The special management actions of the past and present are analyzed to determine which of the different approaches proved to be successful in reducing ULO amounts and where further improvements are needed. The System Program functions and interactions with participating organizations are described as they relate to contract and financial administration.

KEYWORDS: RESOURCES MANAGEMENT FINANCIAL MANAGEMENT MILITARY FUNDS PROCUREMENT

NAME, RANK, SERVICE	CLASS	DATE
James W. Alford, GS-13, U S Air Force	PMC 74-1	May 1974

UNLIQUIDATED OBLIGATIONS (ULO): EFFECT ON PROGRAM ACQUISITION DOLLARS

An Executive Summary
of a
Study Report
by

James W. Alford
GS-13, U S Air Force

May 1974

Defense Systems Management School
Program Management Course
Class 74-1
Fort Belvoir, Virginia 22060

EXECUTIVE SUMMARY

The purpose of this paper is to discuss the responsibility for surveillance of Unliquidated Obligations (ULO), explain what is currently being done to reduce ULO balances in order to release excess funds, and to evaluate methods to improve the procedures for liquidating obligations.

The nature of procurement funds associated with long leadtime deliveries and long range contract closeouts creates a situation wherein funds are retained in an unliquidated status for extended periods of time. Congress is very critical of the balances and has, on occasion, reduced appropriation requests accordingly.

First, the environment of funds management is discussed to describe the nature of the budget cycle and how funds are utilized. The problem of unliquidated balances is introduced and related to routine procedures established by directives for the surveillance and control of this condition. These procedures are then reviewed to determine their effectiveness and to identify the responsibilities of the managerial participants. Special management actions of the past are analyzed to determine which approaches proved to be successful and how they have evolved to their current application.

Second, the responsibilities for each of the participants in the contract and financial management of Procurement funds are identified and described. The funds management functions of the Program Control Division within a System Program Office are illustrated in detail. The current procedures for the overall management of funds are discussed with specific emphasis being placed on the reduction of ULO balances. An evaluation of these methods is accomplished.

The conclusions recognize the strengths and weaknesses of the current system and find that improvements in contract selection and administration will render the greatest results. The recommendations follow this logic and call for better cooperation among the participants, namely the System Program Office, Procurement Contracting Office, the Administrative Office, and the Accounting and Finance Office.

UNLIQUIDATED OBLIGATIONS (ULO):

EFFECT ON PROGRAM ACQUISITION DOLLARS

STUDY REPORT

Presented to the Faculty

of the

Defense Systems Management School

in Partial Fulfillment of the

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Class 74-1

by

James W. Alford
GS-13, U S Air Force

May 1974

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ABBREVIATIONS

ACO	Administrative Contracting Officer
AFCMD	Air Force Contract Management Division
AFPRO	Air Force Plant Representative Office
AFSC	Air Force Systems Command
ASD	Aeronautical Systems Division
ASPR	Armed Services Procurement Regulation
DCAS	Defense Contract Administration Services
DOD	Department of Defense
FY	Fiscal Year
MIPR	Military Interdepartmental Purchase Request
MPC	Materiel Program Code
NOA	New Obligation Authority
PA/BA	Program Authorization/Budget Authorization
PCO	Procurement Contracting Officer
PMO	Program Management Office
PSR	Program Status Report
RDT&E	Research, Development, Test and Evaluation
SPO	System Program Office
TCO	Termination Contracting Officer
TOA	Total Obligation Authority
ULO	Unliquidated Obligation

DEFINITIONS

Appropriation

A fund authorization set up by an Act of Congress which permits a department or other governmental agency to obligate the U. S. Government to pay money for goods or services. It is the administrative authority to enter into contracts or otherwise obligate the Government.

Closed Contracts

A contract accorded limited administration and having a face value of $2,500 or under is closed when evidence of physical completion is received by the Procurement Contracting Officer (PCO). A contract accorded limited administration and having a face value exceeding $2,500, but not exceeding $5,000, is closed when it is physically complete and when the PCO receives evidence of final payment. All other contracts are closed when they are physically complete and when all administrative actions are taken, including the accomplishment of one of the two Contract Completion Statements, DD Form 1594 or MILSCAP Format Identifier PK9. However, a completed contract cannot be considered closed while it is in litigation, or an appeal is pending before the Armed Services Board of Contract Appeal. (Ref 7:2-15)

Commitment

A firm administrative reservation of funds, based upon firm procurement directives, orders, requisitions, or requests, which authorize the creation of an obligation without further recourse to the official responsible for certifying the availability of funds. (Ref 3:2-13)

Expenditure

The charges incurred for goods and services received and other assets acquired, whether or not payment has been made and whether or not invoices have been received.

Fund Programs

As used in this study, the total funds authorized in a given fiscal year for a specified weapons system.

Materiel Program Code

A four digit number used to identify the purpose for which procurement funds are used.

New Obligation Authority

The additional amount which Congress appropriates for an agency in a given fiscal year, over and above earlier appropriations and other funds that the agency has available.

Obligation

Transactions entered into by an agency of the Government which impose liability for the payment of money. The amount of an order placed, contract awarded, a service received, or any transaction which establishes a legal requirement for the ultimate disbursement of funds. (Ref 3:2-14)

Physically Completed Contracts

A contract is physically completed when (i) the contractor has completed the required deliveries of supplies and the Government has inspected and accepted such supplies, (ii) the contractor has performed all services and the Government has accepted such services, (iii) in the case of contracts with option provisions, the option has expired, or (iv) notice of complete contract termination has been given the contractor by the Government. (Ref 7:2-15)

Program Status Report

A semi-monthly accounting report issued by an AFSC Accounting and Finance Office to a System Program Office which reflects the current funds status for that program. The report presents the current program, commitment, obligation, and expenditure amounts identified by contractual/obligation reference and covers the current and the previous three fiscal years.

Successor (M) Appropriation

Account consisting of funds transferred from lapsed appropriations in an amount equivalent to the ULO remaining therein. (Ref 3:2-121)

Total Obligation Authority

The total financial requirements of the Five Year Defense Program or any component thereof required to support the approved program of a given fiscal year.

Unliquidated Obligation

An obligation for which payment has not yet been made.

Contents

UNLIQUIDATED OBLIGATIONS (ULO):

EFFECT ON PROGRAM ACQUISITION DOLLARS*

CHAPTER I

Introduction

The nature of procurement funds, with associated long lead time deliveries and long range contract closeouts, creates a situation wherein funds are retained in an unliquidated status for extended periods of time. Congress is very critical of these balances and has, when appropriating New Obligation Authority (NOA), reduced appropriation requests accordingly. The emphasis on the management of Procurement funds by the Systems Program Office (SPO) is primarily on the commitment and obligation phases. The administration of expenditures is usually relegated to the responsible Accounting and Finance Office and/or Contract Administration activity. The delegation of authority which the Procurement Contracting Officer grants to the Administrative Contracting Officer for contract administration entails the constant review of funds status, with recommendations for release of excess funds and

*ABSTAINER

This study represents the views, conclusions and recommendations of the author and does not necessarily reflect the official opinion of the Defense Systems Management School nor the Department of Defense.

contract closeout. This split of functional responsibility among different organizations coupled with the singularity of the fund management emphasis has contributed to the current dilemma concerning unliquidated fund balances.

Purpose of Study

The purpose of this study is to discuss the responsibility for surveillance of Unliquidated Obligations (ULO); explain what is currently being done to reduce ULO balances in order to release excess funds, and to evaluate methods to improve the procedures for liquidating obligations.

Background

The current concern for unliquidated obligations was generated by the Comptroller of Air Force Systems Command (AFSC) approximately two years ago. For a number of fiscal years, Congress has granted a Total Obligation Authority (TOA) in excess of the New Obligation Authority (NOA) for a given fiscal year and has directed that the difference be transferred from earlier fiscal year appropriations. For example, in the Appropriations Act for Fiscal Year 1973, Congress authorized a total of $2,239,300,000 in TOA for the procurement of aircraft by the Air Force; however, $443,000,000 was transferred from earlier year appropriations and Stock Funds thus limiting the NOA to $1,796,300,000 (Ref 12:10). Similarly in the Appropriations Act for Fiscal Year 1974, the TOA was $2,720,400,000 of which $54,000,000 was transferred from earlier year appropriations (Ref 13:10). Likewise, similar comments were contained in the language authorizing other Air Force appropriations as well as those for the other Services. It is therefore encumbent upon the affected Service to obtain these funds through recoupment actions from other programs. This limits the Service's flexibility and sometimes causes the cancellation or deferment of desired programs. However, one fund source is from unliquidated funds and has been the reason for current AFSC emphasis on the review of over-age unliquidated obligations (ULO).

Study Approach

Research. The major portion of the research for this study was accomplished on the basis of interviews with individuals involved in the process of funds and contract administration management activities in Headquarters, Air Force Systems Command; Headquarters Aeronautical Systems Division; and several Systems Program Offices. Documentation and literature were reviewed to determine regulatory responsibilities for the various aspects of funds management, to review existing procedures for the normal liquidation of obligations, to identify historical trends, and to identify special management actions being taken to expedite the process and reduce ULO amounts to a minimum.

Organization. This study is divided into three parts. First, the environment in which funds are managed is discussed to reflect the effect of the fund cycle, how and why the areas of funds management emphasis have shifted, and what was being done about it. Second, the funds management procedures are reviewed to determine responsibilities, to outline what the System Program Office does, and to discuss and evaluate current activity. The conclusions then summarize the results of the study, and the recommendations propose where further improvements and emphasis could be directed to enhance a favorable solution.

Limitations of the Study. This study is limited to the discussion of the aspects of funds management and contract administration as they relate to the procurement appropriation and the acquisition process viewed in the environment of a Systems Program Office.

CHAPTER II

Funds Management Environment

To achieve a better understanding of the problems facing the System Program Director in the area of funds management, it is appropriate to review the funding environment of a System Program Office (SPO). The Program Control Division is the SPO focal point for financial management and administers funds received in the Research, Development, Test and Evaluation, and Procurement Appropriations for the acquisition of the weapon system. A general overview of the financial environment will be discussed in this chapter as it relates to the problem of unliquidated obligations.

Fund Cycle

The budget cycle consists of three stages: the formulation stage, the review and enactment stage and the execution stage, and covers a period of approximately 34 months (Ref 3:1-12,16). Although the other stages consume the most time and are necessary for obtaining the funds used in the execution stage, it is this stage that generates the most criticism when not properly managed. For the purpose of this paper, the execution stage will be referred to as the fund cycle and defined as the period in which the funds for a given fiscal year are received, committed, obligated, and expended. This is considered to be the funds management aspect of SPO financial management activities. The independent cost estimating, budget submissions, and participation in formulation stage are considered to be budget management. The surveillance of contractor costs and reports relative to the Cost Schedule Control Systems Criteria are considered to be cost management. The interactions of the fund cycle will be discussed in Chapter III and will concentrate on the Procurement appropriation. The significant difference between the two appropriations is that the RDT&E funds are available for a shorter period of time.

The fund cycle for the Procurement appropriation has varied from an indefinite period of time to the present in which new obligations to a given fiscal year funds are limited to three years.

Evolution of Emphasis Areas

The problem of unliquidated obligations is not a new one; however, progress has occurred. At the beginning of Fiscal Year (FY) 1957, the Air Force had an accumulation of program year accounts in the no-year appropriations dating back to FY 1948 for the Aircraft and Related Procurement appropriation with similar experience in other Procurement and Research and Development (R&D) appropriations. During this period, older program year records were maintained primarily for the liquidation of obligations on contracts which had already been accomplished. With the decreasing activity in the older program year accounts, a system was needed to simplify the financing, accounting, and reporting workloads as well as emphasize the liquidation of the remaining obligations. Initially, the ULO balances for program year 1953 and prior were consolidated into a liquidation account for each appropriation on 1 January 1957. The command having operating and management control responsibility for the funds opened liquidation accounts. For example, Air Force Logistics (then Air Materiel Command) established accounts for the Aircraft and Related Procurement appropriation and Air Force Systems Command (then Air Research and Development Command) established accounts for the R&D appropriation. Annually thereafter, the ULO balance of the then oldest active program year was transferred to the appropriate liquidation account during January to minimize the year-end workload. These liquidation accounts were established solely for liquidating obligations incurred under designated prior program year appropriation citations. New contracts could not be charged to the account, although amendments could be accepted for certain specification and engineering changes limited to those which were a prerequisite to delivery of the original items in a condition acceptable to the Air Force (Ref 3:2-119/121).

The Procurement appropriation remained a no-year appropriation until Fiscal Year 1971, when Section 842 of the DOD Appropriations Act of 1971 established a time limitation on

Procurement funds (Ref 10:18). This Act changed the Procurement appropriation to a multiple year appropriation of three years. The effect of the change was to limit the time that the funds were available for incurring obligations from an indefinite period of time to a time period of three years. This meant that the FY 1971 funds would not be available for obligation after June 30, 1973, and was a significant departure from the language of previous Appropriation Acts. For example, the DOD Appropriation Act of 1970 for Aircraft Procurement, Air Force stated "For construction, procurement, and modification of aircraft, and equipment . . . to remain available until expended." (Ref 9:8).

The real significance of this change was to alter the emphasis which was being placed on the manner in which funds were being managed. During the era of the no-year appropriations, the emphasis was directed primarily toward getting the funds for a weapon system committed with secondary interest in getting the funds obligated. The impetus for stressing the obligation of funds can be traced to the action of establishing the liquidation accounts in 1957; however, it was not until the "tight money crunch" that the early obligation of funds became serious business for the Procurement appropriation. The "transfer of funds from prior year appropriations" used by Congress causes the Air Force to depend upon recoupments of unused funds from prior fiscal year programs to finance a sizable portion of the current year's buying program (Ref 1:1) and helps to cause the emphasis to now shift to expenditure management as well.

Previous Activity

The Aeronautical Systems Division (ASD) had already begun in the late Sixties to step up their surveillance of dormant funds within unexpended prior year programs. ASD was motivated by the recoupment actions that were necessary to fund and maintain current programs. The real challenge came when the various financial managers were called upon to make an early identification of the dormant funds that could be withdrawn. It soon became apparent that there was a natural reluctance to remove funds from contractual documents because of the difficulty that would be encountered if they were needed later, a strong desire to retain funds to assure complete coverage of the "known unknowns" and the "unknown unknowns", and the urgency of getting current year programs started does not leave much time for finishing old business.

An analysis of the normal fiscal trends for the Procurement programs illustrated a high rate of obligations was experienced in the first two years that tapered off in the third year. It was found that the expenditure rate followed a similar rate a year later. It was further noted that only the routine and recurring methods were being used in the control of funds. While effective, these methods permitted a continual rise in the unexpended balances beyond the third year with relatively few accounts being closed out. As the prior year contracts grew older, the workload for the procurement and accounting activities was increasing and the reasons for retaining unexpended balances were more difficult to justify. It was soon recognized that this unfavorable condition had to be reversed, and that special management actions and procedures had to be initiated.

These actions established "pre-closeout" and "closeout" time periods. The pre-closeout period began on 1 October of the third year with a monthly listing of all open commitment documents that was furnished to the SPO and applicable buying activity by the accounting office. The SPO and PCO reviewed the list and either cancelled the commitment or obligated the funds if the requirement remained valid. This procedure had the attention of top management and the dollar magnitude of the commitment status by program was included in monthly reports to that level. The next step was the justification of unobligated requirements at the January Quarterly Program Review at which time the specific item was identified by quantity, dollar value, obligation forecast date, and justification. The final step came in December of the third year with a listing of contracts having unliquidated balances over $200,000. The SPO had to verify the need for any undelivered items or unrendered services. Sixty days later, a status report of open contracts was provided each PCO with instructions to obtain information from the ACO which would provide physical completion and final closeout dates, dollar amounts required, and the removal of excess funds.

The closeout period began on 1 July of the fourth year at which time the funds were managed at appropriation level rather than by individual system/program. The funds were consolidated and all outstanding administrative commitment documents were cancelled with notification being furnished to the appropriate PCO. The control was exercised by the Programs/Budget Division which revalidated and approved all new commitment documents and limited them to funding requirements to finalize and close out contracts. The funding requirements for new items, increases in scope of work, and additional quantities had to be borne by current fiscal year programs. Special surveillance was initiated on all contracts with ULO balances over $25,000. Individual files were established that listed forecast dates for physical completion of the contract and final closeout, undelivered items and dollar value, and excess funds removed. This provided justification for the retention of unexpended funds and enabled follow-up action when milestones were not met. This information was also contained in monthly reports to top management and served to emphasize the need for cradle-to-grave contract management by the PCO. Periodic reviews were conducted by the accounting and finance office on those contracts with balances under $25,000.

These actions proved to be effective in reducing the administrative and computer workloads, reduced the amount of funds that were still unexpended at the end of the third year, and significantly increased the amount of funds that could be recouped from prior year funds to satisfy new requirements. Areas that required further improvement were identified for consideration (Ref 1:3-10).

CHAPTER III

Funds Management Applications

This chapter will discuss the responsibilities of the various organizations involved in the management of ULO balances, what they are doing and how they are going about the task, and elaborate more fully on the funds management function of the SPO. The examples used will be based on experience gained in an Aircraft SPO within Aeronautical Systems Division and will be presented under somewhat ideal conditions. The primary attention will be centered on unliquidated obligations during the third through sixth year of the fund cycle; i.e., after the funds have been available for obligation for two years until they will revert to appropriation level. It is not appropriate to begin the ULO surveillance sooner because of the long leadtime deliveries associated with Procurement funds and the time needed for contract closeout. For example, an aircraft with an eighteen month delivery leadtime purchased in FY 1974 (July 1973-June 1974) would be delivered during Calendar Year 1975, and the standard time allowed for the closeout of most physically completed contracts is twenty months (Ref 7:2-17).

Responsibilities

The responsibilities for ULO surveillance encompass both financial and contract administration activities. The Accounting and Finance Office which administers the SPO funds has a basic responsibility to identify the accounts with ULO balances and to interface with the paying activity to assure ULO balances are removed when contracts are closed out. In the case of the ASD SPO, the Program Status Report gives an initial identification of the contracts that have ULO balances and is supplemented by a monthly report that summarizes the contracts and obligation documents which require surveillance because of their ULO balances. The procedures which exist for the interface with the paying activity are covered in the discussion of the Air Force Plant Representative Office (AFPRO) and Defense Contract Administrative Services (DCAS) responsibilities.

The majority of the funds obligated for SPO requirements are accomplished by contracts with industry as opposed to project orders and obligation agreements with other Government agencies. Therefore, a large measure of the responsibility for the surveillance of ULO balances rest with the Procurement Contracting Officer (PCO) and the Administrative Contracting Officer (ACO). In weapon systems acquisition, the PCO normally assigns the contract administration responsibilities to an ACO. The PCO is responsible for providing the ACO with special guidance when and where it is appropriate. The ACO function can be assigned to an Army, Navy, or Air Force Plant Representative Office or a DCAS Office. The provisions contained in the Armed Services Procurement Regulation (ASPR) are equally applicable to each of the organizations. The Air Force Contract Management Division (AFCMD) has issued AFSC Supplements to the ASPR which provide special guidance to the AFPRO for administering AFSC contracts.

The DOD policy calls for the maximum of the contract administration offices and that the PCO shall delegate contract administration functions to the ACO except for unusual circumstances. Further, the PCO designates a Disbursing Office which will be a DCAS Office for contracts administered by DCAS, and for other than DCAS, a Disbursing Office from that Service; ie., AFCMD for Air Force contracts. The ACO serves as a focal point for all inquiries regarding status of deliveries and production, quality of material, and other contract administration matters; and keep the PCO and other interested activities advised of all pertinent matters related to the administration of the contract (Ref 6:20-30/33).

The procurement responsibility and authority for the contract administration functions are outlined in ASPR. Upon assignment of a contract for administration, the contract administration component is automatically responsible for these functions. Special instructions may be issued by the PCO to cover contract particulars. Among others, these functions cover progress payments, overhead rate negotiation, allowability of costs, overrun/underrun notification, price negotiation as authorized by the PCO, payments on assigned contracts, price adjustment negotiation, and most importantly, as authorized by the PCO, the negotiation and execution of supplemental agreements providing for the de-obligation of unexpended dollar balances considered excess to known contract requirements, and of contractual documents for settlement of cancellation charges under multi-year procurements (Ref 6:1-93/97).

The special guidance to the AFPRO for AFSC contracts address the following circumstances. On physically completed AFSC contracts, the ACO will determine, in conjunction with the contractor, if there are funds in excess of estimated requirements and will issue a unilateral contract modification releasing any funds found to be excess. Coordination with the appropriate disbursing office will verify the availability of funds for withdrawal (Ref 4:122.4). As appropriate, where negotiated final overhead rates apply to the contract, the ACO is authorized to negotiate final overhead rates to closeout completed contracts (Ref 4:347). Funds determined to be in excess of the estimated amount required for settlement will be released by the Termination Contracting Officer through unilateral action. Coordination with the appropriate disbursing office will verify the availability of the funds for withdrawal (Ref 4:810).

The role of the SPO is primarily as an integrator. The SPO has the responsibility to make sure that the other principals are doing their jobs properly so that SPO position will be enhanced. Actions which the SPO can take are early identification of special interest areas and the establishment of Memorandum of Agreements with the PCO and ACO.

Funds Management Functions of the SPO

As discussed earlier, the SPO funds management function shall address the receipt, commitment, obligation, and expenditure of funds made available for the acquisition of a weapon system. The remainder of the discussion shall assume an approved program that is in production and is not experiencing any difficulty as concerns program approval or the receipt of funds. Therefore, it is assumed that program fund requirements were estimated earlier, a budget was submitted to higher echelons and funds were approved and issued.

The formal fund program would then be issued to the SPO on a Program Authorization/Budget Authorization (PA/BA) for an established quantity of hardware items, such as aircraft, and related support items. A typical PA/BA for an ASD aircraft SPO would resemble Figure 1.

Figure 1

PROGRAM AUTHORIZATION/BUDGET AUTHORIZATION

Fiscal Year 1974

Document Number: ASD-XXA-74-1 System Identification: XXXA

Accounting Classification: 5743010 1144720 10XXXA 595600 F95600

Budget Project Account Code: 10XXXA Program Element Code: 27XXXF

Quantity of Aircraft		24
XX10	Air Vehicle	$58.8
XX20	Training	6.2
XX30	Advance Buy	5.6
XX40	Peculiar Ground Support Equipment	18.7
XX70	Data	1.0
	TOTAL	$90.3

Complete flexibility is authorized within the fund program for Fiscal Year 1973 except that XX30 cannot be changed without prior approval of this Headquarters.

* * *

This document initiates the SPO fund cycle. The duration of the cycle covers three years during which the funds would be available for obligation; ie., FY 1974 funds are available until 30 June 1976; plus an additional three years for expenditure purposes before they go to appropriation, i.e., FY 1974 will revert to appropriation level on 30 June 1979. The SPO issues a redirected Program Authorization to the cognizant Accounting and Finance Office to inform them how to distribute the funds by Materiel Program Code (MPC) which relates to the budget and indicates how and with whom the SPO intends to spend its money. This in effect establishes the bank account through which the SPO will conduct its business. With its bank account intact, the SPO then issues Purchases requests, Military Interdepartmental Purchase Requests, project orders, program directives, and other administrative commitment documents which commit program funds for their intended use. These Commitment authorizations permit the buying activities/procurement offices to issue contracts and other obligation documents which then obligate the SPO funds. Expenditures will occur against these obligations as progress payments are made, items are delivered, and contracts are completed. For a given fiscal year, this activity will occur to some degree throughout the three year period until the funds are completely obligated, or turned back if determined to be surplus.

Previously the attainment of this three year milestone would have ended the funds management concern for the SPO funds manager. However about two years ago, the AFSC Comptroller in his concern over Congressional reductions of appropriations because of over-age unliquidated funds directed SPO surveillance of ULO balances as well. The prime responsibility for ULO surveillance was felt to be that of the Accounting and Finance Office and the PCO/ACO, so the SPO's were reluctant to enter this realm of financial responsibility at first. General officer attention and the application of the "cradle-to-grave" concept of total system responsibility vested upon a System Program Director prevailed until ULO management became a way of life for the AFSC SPO.

Each SPO participates in a Quarterly Program Financial Review which highlights the progress being made in utilizing available funds with emphasis on the commitment and obligation status. The Review has been expanded to emphasize expenditures and unliquidated obligations, and now requires a separate Analysis of ULO Balances be performed. The analysis covers prior year funds that are in the last four years of the fund cycle, i.e., the FY 1974 reports address FY 1969 through FY 1972; identifies the individual ULO amount by fiscal year, contract/document reference, type and status of the contract, and the reason for the ULO; and indicates whether the ULO amount can be reduced and/or the transaction can be closed out. This report requires the SPO to interface with the ACO in order to obtain the latest status on contracts and the reasons why a ULO amount still exists.

Current Activity and Evaluation

The current approaches to ULO management represent an evolution of the previous procedures and methods. The pre-closeout and closeout periods are still being used with modification, but the significant difference is in the participation of the SPO. Reductions in manpower in the procurement and accounting functions have reduced the previous practices used by them to maintain the old system. This workload has now shifted to the SPO without any increases in manpower and generally dictates a management by exception approach.

The primary output of the current emphasis on the reduction of ULO balances is the Analysis of Unliquidated Obligations report mentioned above. An example of this report is shown in Figure 2. The report is based on and reconciles with the fund status information contained in the Program Status Report which also provides the fiscal year and contract/document identification. SPO records are then used to determine the responsible ACO, contract type, contract status, and current information relative to the contract. The last two items require at least quarterly contact with the applicable ACO in order to obtain current status information and progress being made to reduce the particular ULO balances. This contact is maintained primarily by telephone; however, it is necessary to correspond relative to problem areas.

FIGURE 2

APPROPRIATION/UNLIQUIDATED OBLIGATION ANALYSIS

(Contracts funded in more than one FY with ULO amounts remaining will be grouped together by FY)

X 3010 • 3080 3600
3020 3400 OTHER

PROGRAM ELEMENT: 27121F | BPAC: 10337A | TITLE: A7D TACTICAL ATTACK AIRCRAFT

STATUS AS OF 31 JANUARY 1974	QTR	FY 69	NO. DOC IN ULO	FY 70	NO. DOC IN ULO	FY 71	NO. DOC IN ULO	FY 72	NO. DOC IN ULO	FY	NO. DOC IN ULO
OBLIGATION	1	168.246		307.115		210.645		198.076			
	2	168.200		306.963		210.727		202.029			
	3	168.200		307.007		210.475		212.334			
	4										
EXPENDITURE	1	165.819		296.862		198.344		167.030			
	2	168.037		301.009		200.752		188.921			
	3	168.783		302.052		202.475		189.205			
	4										
UNLIQUIDATED OBLIGATIONS	1	2.427	8	10.253	34	12.301	49	31.046	59		
	2	.163	6	5.954	29	9.975	41	13.108	61		
	3	- .583	4	4.955	22	8.000	31	23.129	67		
	4										

ULO DATA

FY A	DOCUMENT NO./ CONTRACTOR B	CONTR ADMIN BY C	TOTAL CONTRACT AMT (Cumulative FY) D	SPECIFIC FY AMOUNT[1] E	ULO AMOUNT F	TYPE CONTR G	CONTRACT STATUS[2] H	REMARKS[3] I
69	N0001970A0003 LTV	NAVPRO DALLAS	~~.968~~ .950	~~.968~~ .950	~~.069~~ ~~.056~~ -0-	BOA	PC	DCC ~~AUG 72. INR~~
	N0038369C0010 RODALE ELEC	DCAS GARDEN CITY	~~.883~~ .839		(~~.049~~)(.005)	FFP		
69				~~.021~~ -0-	~~.021~~ -0-		PC	DCC-JUN 72. DCAS-NYC HAVING PROBLEMS RECONCIL-
70				~~.382~~ .359	~~.023~~ -0-		PC	ING EXPENDITURES. DCAS
71				.430	.005		PC	FOLLOW-UP IN PROGRESS.

[1] Indicate in column H if effort for specific FY is active or complete.
[2] Active - A, Physically completed - PC, In termination - IT, Terminated - T.
[3] Awaiting final delivery-AFD, Awaiting claims settlement-ACS, Pending overhead renegotiation-POR, Invoice not received-INR, Awaiting incentive fee negotiation-AIFN, Date contr complete-DCC.

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The conditions which most generally create the over-age unliquidated balances are contracts (1) awaiting claims settlement, (2) pending final overhead renegotiation, (3) awaiting incentive fee negotiation, (4) awaiting final audit, (5) being disputed or defaulted, and (6) containing multiple year funds with other systems/programs and Services. The latter condition with the multitude of accounting classifications involved sometimes result in an "over-expenditure" for a single program because of progress payments and/or inadequate accounting on the part of the ACO. Some short term reasons for ULO balances include the reluctance on the part of the ACO in freeing up funds, different billing procedures and billing policies of the contractor, and non-receipt of closeout documentation by the accounting activity. Unique items, such as the inclusion of Washington State Sales Tax on Boeing contracts, tend to create ULO balances of indefinite duration.

The most effective tool for the SPO for improving the ULO picture is to establish a rapport with the personnel in the applicable ACO that service its contracts. The established procedures and techniques allowed by the ASPR as supplemented by Service peculiar and DCAS guidance provide an environment in which there should be little cause for excessive and over-age ULO balances. The main emphasis should now be on a combined effort of the involved parties to work in concert to keep the ULO balances to a minimum. Complete coverage of all items is not possible nor practicable because of the sheer volume involved and reduced manpower. Therefore, the techniques whereby the ACO is permitted to deobligate unexpended funds known to be excess, the settlement of cancellation charges, negotiation of final overhead rates and negotiation of prices and price adjustments can serve the SPO well, provided the PCO has passed the appropriate authority along to the ACO (Ref 8:49,193,235/239).

The Quarterly Program Financial Reviews continue to be a major factor in bringing financial management areas to top level management, and cause a complete analysis of all fund requirements to determine whether or not SPO funds are needed be they programmed, committed, or obligated. The early identification and reprogramming of fund surpluses eliminates the main causes for future unliquidated balances.

Another indication of change is the current method for measuring the progress made by the AFPRO. Previously, the AFPRO's productivity was measured by the number of contracts that were physically completed and/or closed out. The current report used to measure the performance of the AFPRO is the "Excess Funds Released From Completed Contracts, RCS: SYS-PPS(Q) 7204" report. It gathers information on Air Force contracts over $25,000 which are administered by the AFPRO. The report measures the dollar amount of ULO when the contract is physically completed, the dollars released prior to contract closeout, the dollars released at contract closeout, the percent released at closeout, and the number of contracts involved. The emphasis has shifted from a quantitative measurement of contracts closed out to a qualitative measurement between the dollars released prior to closeout and at closeout. The main thrust being directed to the early release of funds prior to closeout when the chance of their being utilized is greater.

An attempt was made to collect some statistics to determine if the current special emphasis on ULO reduction had achieved any results, but the statistics that were available were not conclusive enough to make a meaningful analysis of progress. The accounting records did not cover a sufficient number of prior fiscal years upon which to establish comparative trend lines for obligation and expenditure activity. Financial managers in several Navy Program Management Offices were contacted for information on how they handled the ULO problem and what statistics they had available. These discussions revealed that the Navy Program Management Office is not concerned with funds pass the point of obligation. By contrast, the contact with other AFSC System Program Offices indicated that they had in fact been able to reduce their ULO balances and to release the funds for other purposes.

CHAPTER IV

Conclusions and Recommendations

As was stated in Chapter I of this paper, "The purpose of this study is to discuss the responsibility for surveillance of Unliquidated Obligations (ULO), explain what is currently being done to reduce ULO balances in order to release excess funds, and to evaluate methods to improve the procedures for liquidating obligations".

It was determined that the conditions which most frequently generate ULO balances of consequence are claims, final overhead negotiations, defaulted contracts, and "Piggy-back" contracts with other systems and Services which contain a mixture of accounting classifications. A review of the causes, history of what has happened before and how it was handled, and current policy and procedures has formed the basis for the conclusions reached and the recommendations made to improve administration and surveillance of unliquidated balances.

Conclusions

1. The emphasis on funds management has evolved in a manner that is consistent with the way in which Procurement funds are appropriated by Congress.

2. The existing systems and procedures for contract and financial management are adequate to cope with today's problem with ULO balances provided that they are put into play by the participants. However, it is unfortunate that the system requires an expediter in the form of a SPO before it will fully perform its function.

3. The majority of the conditions which produce the unliquidated balances that are problem areas can be traced to poor contracts and contract administration difficulty.

Recommendations

1. The emphasis on funds management should attempt to cover the whole spectrum of activity - commitments, obligations, and expenditures. If special emphasis must be given, then it should be placed on the swift utilization of the available dollars for known requirement and the early release of surplus funds. Granted that a management reserve must be maintained for contingencies, but it should be minimum.

2. The SPO Program Control Division should or cause the PCO to enter into Memorandum of Agreement with the ACO (DCAS, AFPRO, Other Plant Rep) of the prime and other major contracts that will give the ACO latitude in de-obligating excess funds and to keep the SPO informed of financial transactions affecting its contracts and funds. The SPO funds management personnel should establish and maintain contact and good rapport with the ACO counterpart for contracts with high value items.

3. Contractual controls should be established in the contract and maintained by the SPO/PCO/ACO to eliminate constructive change notices and other contractual conditions which generate claims on the part of the contractor. Contracts should be written to better match the environment of operation in order to minimize the time required for final overhead negotiation and incentive fee negotiation.

4. The ACO should establish a more satisfactory system for monitoring contracts that cover a multiple array of customers with the accompanying multiple year and numerous accounting classifications.

Annotated Bibliography

Articles

1. Paull, William J., "Put 'Lazy Dollars' to Work," (unpublished report, Aeronautical Systems Division, Wright-Patterson AFB, Ohio), pp. 2-10.

   An article on the dormant funds contained in unexpended prior year programs and ways to recapture utility from these funds before they revert to Successor (M) appropriation status.

Official Documents

2. Air Force Contract Management Division (AFCMD) Brochure

   Brochure states AFCMD and Air Force Plant Representative Office (AFPRO) responsibilities, lists the services available to a System Program Office, and explains how to initiate agreements for AFPRO support.

3. Air Force Manual 172-1, Budget: Air Force Manual of Budget Administration. Washington: Headquarters, United States Air Force.

   Manual containing the policies, instructions, procedures, and forms pertaining to the performance of the budget functions of the Air Force.

4. Air Force Systems Command ASPR Supplement Change 22, Armed Services Procurement Regulation: AFSC ASPR Supplement. Washington: Headquarters, Air Force Systems Command, April 1973.

   Supplement states AFSC procurement policy relative to handling of physically completed contracts, final overhead rate negotiation, and settlement of terminated contracts.

5. Air Force Systems Command Regulation 70-10, Procurement: Physically Completed Contracts. Washington: Headquarters, Air Force Systems Command, October 1971.

   Regulation assigns responsibility and prescribes uniform management control of AFSC-administered physically completed contracts.

6. Department of Defense, Armed Services Procurement Regulation. Washington: Department of Defense.

Regulation contains Defense procurement policy, assignment of procurement responsibility and authority, and guidance.

7. Department of Defense, ASPR Supplement (ASPS) No. 2. Washington: Department of Defense.

Supplement contains guidance on the closeout of contract files.

8. Defense Supply Agency Manual 8105.1, Contract Administration Manual for Contract Administration Services. Washington: Headquarters, Defense Supply Agency, August 73.

Manual contains guidance to be used by Defense Contract Administration Services activities in performing contract administration functions and relates these procedures to the ASPR.

9. U. S., Congress, House, Committee on Government Operations, Policy Changes in Weapon System Procurement, Report No. 91-1719, 91st Congress, 2d Session, December 10,1970, Washington: GPO, 1970.

A summary of recent acquisition procurement policy changes during that period.

10. U. S., Public Law 91-171, 91st Congress, H. R. 15090, December 29, 1969, Washington: GPO, p. 8.

DOD Appropriations Act, 1970.

11. U. S., Public Law 91-668, 91st Congress, H. R. 19590, January 11, 1971, Washington: GPO, pp. 18-19.

DOD Appropriations Act, 1971. Contains Section 842 which places a time limitation on Procurement funds.

12. U. S., Public Law 92-570, 92nd Congress, H. R. 16593, October 26, 1972, Washington: GPO, p. 10.

DOD Appropriation Act 1973.

13. U. S., Public Law 93-238, 93rd Congress, H. R. 11575, January 2, 1974, Washington: GPO, p. 10.

DOD Appropriation Act, 1974.