CHAPTER 4

Accounts Payable

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CHAPTER 4

ACCOUNTS PAYABLE

4-1. References.

a. Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities.

b. Department of Defense Financial Management Regulation (DoDFMR) 7000.14-R.

c. Defense Finance and Accounting Service - Indianapolis (DFAS-IN) Regulation 37-1.

4-2. General.

a. Accounts payable are amounts owed by the U.S. Army Corps of Engineers (USACE) for goods and services received, progress in contract performance, and rents. This chapter provides accounting policy for recognizing accounts payable, including accruals. The guidance applies to accounts payable funded by civil or military appropriations, the U.S. Army Corps of Engineers (USACE) Revolving Fund and other reimbursable funds.

b. The U.S. Government Accountability Office (GAO) prescribes the accrual basis of accounting for all appropriations and funds. The Federal Accounting Standards Advisory Board (FASAB) establishes generally accepted accounting principles (GAAP) and reporting requirements for Federal entities.

c. The accrual basis of accounting recognizes revenues when earned and expenses when incurred. Accrual accounting requires full disclosure of all changes in liabilities and expenses resulting from transactions or events that affect these items. Accrual accounting ensures that the accounting records portray an accurate and complete picture of revenues and expenses for a given accounting period and of the financial condition at the end of the period.

4-3. Policy for Accounts Payable.

a. Recording Accounts Payable. Record accounts payable upon receipt of services or acceptance of title to goods, whether delivered or in-transit. Support accounts payable with adequate evidence of the existence of the liability (e.g. purchase order or contract and proof of receipt). Enter receipt and acceptance of the goods or services in the financial management system within five workdays of receipt of the goods or services.

b. Prevalidation. Prevalidation is the process of matching the planned disbursement with a recorded obligation before disbursing the invoice payment. It ensures that the undisbursed balance of the obligation is sufficient to cover the amount of the planned disbursement. This process minimizes the occurrence of problem disbursements and Anti-Deficiency Act violations. All invoices are prevalidated, but the following thresholds apply to the Mechanization of Contract Administration Services (MOCAS) payments:

(1) Prevalidate all MOCAS payments on contracts awarded after FY2004.

(2) Prevalidate MOCAS contract payments over $5,000 that were issued before and during FY2004.

c. Unfunded Liabilities.

(1) Record accounts payable regardless of funds availability. Accrue accounts payable not covered by budgetary resources as an unfunded liability in the USACE Revolving Fund until the actual source of funding is determined. USACE reports unfunded liabilities in the footnotes to the Consolidated Balance Sheet.

(2) Report unfunded contractor earnings performed in accordance with the Civil Works Continuing Contracts clauses as unfunded liabilities. The amount accrued includes the interest on unfunded earnings as determined by the contracting officer.

d. Judgment Fund. The U.S. Treasury uses the Judgment Fund for payment of certain judicially and administratively ordered monetary awards against the U.S. Government, including Department of Justice compromise settlements. Federal agencies must reimburse the Treasury for payments made on their behalf from the Judgment Fund.

(1) Claims for Contract Disputes (Treasury Symbol 20X1743). As directed by 31 USC 1304 and 41 USC 612, the U.S. Treasury uses the Judgment Fund to pay for monetary judgments awarded under the Contracts Disputes Act of 1978 (CDA), as amended, by the Armed Services Board of Contract Appeals (ASBCA) or the Court of Federal Claims. The affected Department of Defense (DoD) component will reimburse the Judgment Fund for any payment made on its behalf. Judgment Fund debt should be reimbursed using funds current at the time of the judgment and from the same appropriation cited on the original contract.

(a) Military claims or settlements. USACE activities will bill the customer for the Judgment Fund bill amount plus Supervision & Administration (S&A). DoDFMR Volume 10, Chapter 12, and DoDFMR Volume 3, Chapter 8, provide DoD guidance concerning Judgment Fund payments.

(b) Civil Works claims. Forward claims to CERM-F.

(2) Notification and Federal Employee Antidiscrimination Retaliation (NO FEAR) Act, Public Law 107-174. Agencies must reimburse the Judgment Fund for payments made on their behalf for violations or alleged violations of Federal anti-discrimination laws, whistle-blower protection laws, and/or retaliation claims arising from the assertion of rights under those laws. Agencies must reimburse Treasury within 45 days of notification.

(a) Military Activities. Military activities must reimburse the Judgment Fund for No Fear Act claims using the direct appropriation that funded the claimant's position. If funds are not available, submit an unfunded requirement to HQUSACE and record an unfunded liability in the financial management system.

(b) Civil Works Activities. Reimburse the Judgment Fund for No Fear Act claims from the appropriate overhead account for the claimant's assigned organization.

(c) Headquarters USACE and Major Subordinate Commands (MSC). Use the appropriate Executive Direction and Management (ED&M) account for claimants assigned to HQUSACE or a MSC.

(d) Out of Court Settlements. USACE activities pay settlements reached between the two parties directly to the claimant. Guidance concerning timeframes and funding sources are as specified above.

e. Intra-governmental Transactions. Report amounts owed for goods and services received from Federal agencies separately from amounts owed to the public. DoD FMR, Volume 6B, Chapter 13, requires all DoD components to reconcile intra-governmental transactions when compiling the Chief Financial Officer (CFO) financial statements. USACE is a waived entity, which means that DoD grants USACE the authority to provide accounts payable and expense information to other DoD entities. As a waived entity, trading partners must automatically accept USACE accounts payable and expenditure data as accounts receivables and revenues in their financial statements. All activities must place emphasis on the validity of expenditure data to ensure proper financial reporting by USACE and other DoD agencies.

f. Prompt Payment Act (PPA) Interest Payments, PL 97-177.

(1) Federal agencies, including non-appropriated activities, will:

-pay their bills on time,
-pay interest penalties when payments are late,
-take discounts only when payments are within the discount period.

(2) Agencies will make payments thirty calendar days after receipt of a proper invoice or thirty calendar days from acceptance of the goods or services, whichever is later, if the contract does not specify a date.

(3) Fund interest penalties with the same program, project, activity, or revolving fund account cited on the contractual document.

(4) Charge PPA interest penalties resulting from late payments citing non-Corps reimbursable funds to the responsible activity's overhead account when all of the following conditions apply:

-there are insufficient funds on the reimbursable order to pay the interest penalty,
-the late payment will be the final charge against the reimbursable order, and
-the interest penalty does not exceed $100.

(5) Charge interest expense related to procurement of civil or military assets citing expense-type work items to project funds; capitalize interest penalties in the cost of the asset. Charge interest expense related to procurement of Revolving Fund assets to the appropriate departmental, G&A, or shop & facility work item.

(6) DFAS-IN Regulation 37-1, Chapter 8 and Appendix E, Desk Reference Guide for Prompt Payment Act provide additional guidance on PPA and interest penalties.

g. Prompt Payment Act Discounts. Record accounts payable amounts net of vendor discounts.

(1) When a cash discount is offered for prompt payment, process invoice payments within the discount period when economically justified. A discount offer documented on the vendor's invoice is the authorization for a discount deduction if earned. The discount most advantageous to the Government is taken if the terms of the contract or purchase order are not in agreement with the discount offered on the vendor's invoice.

(2) The discount period used for computing the allowable discount amount is based on the receipt of a proper invoice when an invoice is required by the contract. The discount period begins on the invoice date placed on a proper invoice by the vendor. The discount period start date used when the vendor

does not date the invoice is the receipt date annotated on a proper invoice by the designated billing office.

(3) Use normal payment terms on invoices that cannot be paid within the discount period.

(4) DoDFMR Volume 10, Chapter 2, provides additional guidance.

h. Reviewing Accounts Payable Balances.

(1) Funds are allotted to Commanders. The supporting accounting office must conduct a joint review with originating offices of commitments, obligations, accounts payable, and accounts receivable to determine timeliness, accuracy, and completeness of unliquidated obligation data. Conduct reviews during each of the four-month periods ending on January 31, April 30, and August 31 of each fiscal year. The purpose of the accounts payable review is to ensure that all known payables are recorded and that the amounts reported are correct and in agreement with subsidiary records. The Joint Review Program (JRP) requirements apply to all appropriations and funds, to include reimbursable funds, trust funds, and the USACE Revolving Fund. Offices must maintain all supporting documentation for a period of 24 months following the review for audit purposes.

(2) DA and USACE publish annual goals for the JRP. Review accounts payable in each of the JRP phases using the same criteria (appropriation status, dollar amounts, aging, etc.) as established for reviewing commitments and obligations.

(3) Confirmation statements. Commanders must certify that the Joint Review has been conducted in accordance with DoD and DA guidance; certification authority may be re-delegated to the Resource Management Officer. Submit confirmation statements in the Corps of Engineers Financial Management System (CEFMS), in accordance with established due dates, for submission to DA. Exception reports are required if fund holders are unable to complete the required review or confirm the accuracy of data. Activities must provide CERM-F with a full explanation of the

issues and corrective actions taken for reporting to Department of Army (DA).

(4) DoDFMR Volume 3, Chapter 8, DoDFMR Volume 4, Chapter 9, and DFAS IN 37-1, Chapter 27 provide additional guidance on JRP requirements.

4-4. Policy for Recording Estimated Accounts Payable (Accruals).

a. General. Enter estimated accounts payable to the end of an accounting period when goods or services are received but exact amounts are not known. Record accruals only when the event in question has actually occurred (or is projected to occur) by the end of the accounting period. Maintain appropriate source documentation for each accrual entered for audit purposes. Do not enter an accrual when a receiving report is more appropriate.

b. Amount. The amount accrued is a reflection of the actual work performed and the liability incurred. Best estimates may be used but avoid arbitrary pro-rations. An estimated amount should fall within a 10 percent variance of the actual cost and be based on inspections, evaluations or a reasonable basis of calculation (i.e., number of days worked times daily rate, number of units serviced, etc.). Do not use accruals to misrepresent program execution.

c. Documentation. Reasonable documentation is all documentation that would allow another reasonably knowledgeable individual to come to the same logical conclusion. Individuals who enter accruals must maintain audit documentation for all accruals for one year after disbursement or one year after accrual reversal. An accrual support form must be completed and maintained for accruals greater than $3,000. In addition, the Resource Management Office must review and approve the supporting documentation for all accruals of $100,000 and greater. The CEFMS generated Accrual Support Form for accruals over $3000 must be printed and included in the supporting documentation package. Acceptable documentation includes:

(1) Executed bills of lading, issue and turn-in slips, job sheets, or other documents that prove constructive delivery, work performed, services rendered, or material received;

(2) Progress payment requests from a vendor or contractor that will not be disbursed prior to the end of the month. Email and other correspondence from contractors are acceptable;

(3) Obligation documents for services performed where the accrued expenditure and obligation are recorded simultaneously (examples: in-house labor, facility services, etc.);

(4) Advance bill, cost report, or similar documentation from the performing activity for reimbursable work;

(5) Contractor work schedule or time records that show estimated labor hours of work completed;

(6) Employee timesheets.

d. Timing. Record accruals monthly for contractor earnings, intra-governmental activities, and hired labor.

e. Contract Earnings. Record accrued expenditures for performance (including retained earnings) to the end of each calendar month for construction contracts, major supply contracts (e.g., turbines, generators, transformers, fabricated steel), equipment rental contracts, and Architect-Engineer (AE) contracts for design services. Use engineering estimates and management evaluation of actual performance to determine amounts for accrued contract earnings.

f. Intra-governmental activities. Record accrued expenditures for government orders placed with other Corps of Engineers activities and all other Federal activities monthly.

g. Hired Labor. Accrue labor costs (including overtime) to the end of every calendar month using early labor cost cutoff procedures.

h. Reversal. Reverse accruals when the receiving report or invoice is recorded or when the accrual is determined to be invalid. The accrual originator must add an explanation to the support form if the actual amount billed and disbursed is less than 70% of the original amount accrued.

(1) Receiving offices are responsible for reversing accruals at the time the receiving report or contract pay estimate is entered for all payments involving contractual obligations.

(2) The originating office/activity is responsible for reversing any accrual if it is subsequently determined to be invalid.

(3) The USACE Finance Center (UFC) automatically reverses accruals in order to record intra-governmental invoices received. This process facilitates timely payment and collection of government billings. Supported activities will accept the requests from the UFC for the required permissions in the financial management system.

i. Review of Accrual Documents. The Resource Management Office will perform a monthly review to ensure that each accrual over 90 days old is valid and properly supported by appropriate documentation. The accrual originator must provide justification as to why the accrual remains open for more than 90 days. Normally, accruals are reversed and actual costs recorded in the month following the initial recording of the accrual. Resource Management must maintain all documentation supplied by the originator for audit purposes.

4-5. Accounts Payable Procedures. Proper procedures for accounts payable and accruals are available on the CERM-F Share Point website and in the CEFMS Users Manual for Expenditures and Accounts Payable.