**DEFENSE FINANCE AND ACCOUNTING SERVICE**
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IN REPLY REFER TO DFAS-BS/CC

DEC 0 6 2001

MEMORANDUM FOR DIRECTOR, DFAS-BKJN/CC
DIRECTOR, DFAS-BKJS/CC
DIRECTOR, DFAS-BKJW/CC
DIRECTOR, DFAS-BKR/CC

SUBJECT: Policy Regarding Updated Guidance Received from USD(C) and GAO on Canceled Fund Adjustments, Policy Number 02-POL-001

A meeting was held on October 4, 2001, with representatives of USD(C), GAO, and DFAS to obtain guidance on what are appropriate canceled fund adjustments resulting from the GAO audit GAO-01-697, dated July 2001. As a result of the meeting, the following guidance is provided and is effective immediately:

a. Adjustments to Canceled Funds - Adjustments to canceled funds can only be made to correct posting errors. Posting errors can be defined as recording a disbursement against a wrong line of accounting or a deposit into the wrong line of accounting, as specified in the contract. Over-recoupment and under-recoupment of progress payments are also considered to be posting errors and can be adjusted.

b. Netting of Demands and Refunds - If a contract reconciliation results in money owed to the contractor (refund) and money owed to the government (demand), the two amounts are not to be netted for accounting purposes when canceled funds are involved. The refund and the demand are considered to be separate regardless of whether the same appropriation is involved or if the appropriations are different. The refund amount requires the obtaining of current year funds before payment can be made to the contractor. As a debt collection matter, the amounts can be offset after the current funds are obtained, and the demand letter can be issued at the net value. The collection of the demand amount from the contractor must be deposited into Treasury Miscellaneous Receipts via an SF1081. The collection of the demand amount will be posted to the contract via an internal SF-1017G Journal Voucher.

c. Financing Payments - Recoupment of financing payments that have been distributed across lines of accounting, regardless of their canceled status, may be taken in order to pay the contractor correctly. If this requires movement of progress payments from canceled lines of accounting to other lines of accounting in order to correctly liquidate the progress payments, it can be done via an SF1081. Movement of progress payments from a canceled account to an open appropriation for the sole purpose of refunding an over-recoupment is not allowed. Adjustments to reflect the recoupment from the Work In Progress (WIP) line to the control line of the same appropriation may be made via SF1081 regardless of the canceled status of the ACRN.

d. Retroactive Modifications Against Canceled Appropriations - Any modification that states that it is "retroactive" should not be processed until it has been reviewed by the Contract Reconciliation Directorate to determine if canceled appropriations are involved. If the modification changes the payment terms of the contract to "pay oldest funds first," the modification should not be processed prior to a review being performed by Contract Reconciliation. When a modification is received, the Contract Input Technician will perform the following review prior to processing the modification:

(1) Does the modification say it is retroactive?

(a) If no, process the modification.

(b) If yes, continue to step 2.

(2) Is the year of the contract 1997 or later?

(a) If yes, process the modification since canceled funds are not involved.

(b) If no, continue to step 3.

(3) Review the appropriation(s) cited in the modification.

(a) If the appropriation(s) is not canceled, process the modification.

(b) If the appropriation(s) is canceled, do not process the modification. Forward the modification to the Contract Reconciliation Directorate for further review.

Please disseminate this policy to all associates involved in the reconciliation and entitlement process. This guidance will also be posted to the Columbus Infoweb site at https://infoweb.dfas.mil/cps/cp/index.htm. This policy will be incorporated into the next revision of Desk Procedure (DP) 607, Contract Reconciliation, and DP 807, Canceled Appropriations, and DP 808, Coding of Adjustments.

If you have any questions or comments, please contact Mr. Thomas J. Briggs, DFAS-BSPM/CC at extension 3-8780.

Linda Ferguson
for JoAnn Boutelle
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