
Procure-to-Pay Capability Summary

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SUBJECT: Payment Instructions

BACKGROUND: Contracts that contain multi-funded non-severable deliverables, authorize financing payments, or contain cost-reimbursement (including time and materials/labor hour line items) require specific cost allocation approaches to ensure proper accounting for the funds disbursed. Analyses of historic data found misapplication of payment instructions and subsequent recording of transactions that were not compliant with the Generally Accepted Accounting Principles (GAAP) or fiscal law. An Ad Hoc team of representatives from Defense Finance and Accounting Service (DFAS), OUSD Comptroller, the military services, and Defense Pricing & Contracting (DPC) concluded that the appropriate accounting treatment for payments can be derived from the type of effort acquired and the type of payment. This resulted in recent policy changes that have implemented a standard set of payment instructions that can be inserted in contracts to guide entitlement systems on the proper payment approach.

POLICY: The Defense Federal Acquisition Regulation Supplement's Procedures, Guidance, and Information (DFARS PGI) section 204.7108 was updated with payment instruction information in December 2017. The policy now says that any type of contract or order that is funded by multiple accounting classification citations and meets certain other guidelines shall carry a table of payment instructions in section G of the contract. Subsequent policy memos have clarified that the contracts may carry the full table or a URL link to the PGI instruction in which the table is published.

SYSTEMS: Contract writing systems must be updated to either insert the Payment Instructions table or a link to the table in Section G of relevant contracts. Mechanization of Contract Actions System (MOCAS) and other entitlement systems must be updated to derive payment instructions from the type of payment request submitted following the rules in the matrix.

IMPACT: Prior to this change, contracting officers were required to provide payment instructions in the contract. Incorrect payment instructions were often entered on the award document, which negatively impacted payment processing. Payment instruction errors were the third most common cause of contract deficiency reports, even though less than 10% of contracts require the inclusion of payment instructions. Using a standard set of payment instructions will result in faster and more accurate payments and enhance auditability.

CONTACT: Jay Olson, OUSD(A&S)/DPC at 703-627-2296, jay.c.olson6.civ@mail.mil