Payment Instructions

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Background

- Payment instructions are directions to the payment office on how to determine which funds to charge when the effort being billed is funded by more than one accounting citation.
- Most common applications are progress payments (which are normally made at the contract level) and non-severable multi-funded line items
- Initial implementation as part of 1966 line item rule
  - Armed Services Procurement Regulation 1 June 1966 Part 3, 20-304.2(c) “Under certain conditions, line or sub line items under an individual contract may be established with multiple fund accounting classifications when it is determined by the contracting officer that subdivision of the requirement into separately deliverable and identifiable line or subline items, each related to a single fund accounting citation, cannot be accomplished. In such case, the contract shall provide sufficient information under the heading "Payment Instructions for Multiple Fund Accounting Citations" to permit proper payment and fund accounting.”
- Two significant updates
  - Oct 2005 DFARS Rule created list of 11 payment instructions plus ‘other’.
  - Sep 2009 DFARS Rule applied clause like numbering to enable transmission of instructions as data.
Problem Statement

• Payment instruction coverage was not well implemented
  – Missing payment instructions
  – Incorrect payment instructions
  – Misapplication of instructions to payment types (e.g. application of an instruction for the progress payments to the delivery payment)

• Burden on contracting workforce
  – Lack of appropriate expertise
  – Difficulty in constructing the instructions to cover multiple types of payments on a contract

• Audit
Impact of Prior Payment Instructions (FM Perspective)

• Application of the prior payment instructions negatively impacted the accuracy of financial data reported
  – Transactions recorded were not fully compliant with Generally Accepted Accounting Principles (GAAP), laws, and Office of Management and Budget circulars. The governing payment instructions were not fully compliant with the requirements of GAAP e.g. sequential ACRN order.
  – Reporting entities were challenged to reasonably report their work-in-progress or construction-in-progress account balances at reporting period ends for contracts where all work has not been completed.
Challenges

• The payment instructions used by the Department of Defense needed revision.
  – Simplification and auditability drove changes.
  – DoD received many audit findings related to payments on contract line items that are funded by multiple accounting citations or items that are not broken out into separately identifiable subline items.
  – The process of selecting payment instruction was not well understood and the payment instructions were often selected inconsistently.
Rule development

- ODCFO closely worked with DPAP and DFAS
- Leveraged approach used for recording payments to correct general ledger account
  - DoD Financial Management Regulation, Volume 4, Chapter 5, paragraph 050404 and Table 1
  - Accounting treatment based on
    - Payment type (e.g. Progress payment)
    - Contract type (e.g. Cost reimbursement)
    - Deliverable (goods or service)
- Used list of invoice types and type of work to drive logic for entitlement
- Developed standard set of instructions applicable to all contracts with multiple funding
- The revised approach recognized the differences in accounting treatment for supplies and services, as well as for various financing methods.
- Each payment type was assessed for compliance with GAAP and appropriate payment instructions identified to ensure compliance with GAAP.
Rule Development

• Identified key supporting documentation needed to support audit and other independent verifications.
• Conducted research and developed examples and illustrations of the application of the revised payment instructions.
• Solicited feedback from the DoD OIG, GAO, and Independent Public Accountants currently performing audits in DoD.
• Coordinated with Military Services Financial Management community and adjudicated their comments.
• DPAP issued a standardized payment instruction table via Defense Federal Acquisition Regulation Supplement (DFARS) Procedures, Guidance, and Information (PGI).
• DFARS case to follow to address issues affecting contractors, i.e. FMS progress payment requirements and multiple lot contracts
## Summary of table in DFARS PGI 204.7108

<table>
<thead>
<tr>
<th>Type of Payment Request</th>
<th>Supply</th>
<th>Service</th>
<th>Construction</th>
<th>Payment Office Allocation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Voucher</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>Line item specific proration.</td>
</tr>
<tr>
<td>Navy Shipbuilding Invoice (Fixed Price)</td>
<td>X</td>
<td>N/A</td>
<td>N/A</td>
<td>Line Item specific by fiscal year.</td>
</tr>
<tr>
<td>Invoice</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>Line Item Specific proration</td>
</tr>
<tr>
<td>Construction Payment Invoice</td>
<td>N/A</td>
<td>N/A</td>
<td>X</td>
<td>Line Item specific by fiscal year</td>
</tr>
<tr>
<td>Progress Payment*</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>Contract-wide proration.</td>
</tr>
<tr>
<td>Commercial Item Financing</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>Specified in approved payment.</td>
</tr>
<tr>
<td>Performance-Based Payments</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>Specified in approved payment.</td>
</tr>
<tr>
<td>FMS Progress Payment</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>ACO allocates.</td>
</tr>
</tbody>
</table>
PGI Change Summary – A DFAS Perspective

PGI 204.7108 – Payment Instructions

Instructions informing the payment office how to allocate and record the amounts paid to each accounting classification cited in the contract

- Assigned by Contracting Officer
- Applied at Contract or CLIN level
- Specific Numbered Instruction in Section G of Contract
- 12 PGI Payment Instructions
  - 6 Line Item Specific
  - 5 Contract-Wide
  - 1 “Other”

- Derived based on PGI Matrix
- Dependent on Payment Request Type
- Matrix or Link in Section G of Contract
- 6 PGI Payment Instructions
  - Line Item Proration
  - Line Item by Fiscal Year
  - Contract-Wide Proration
  - FMS Allocation (PPRB)
  - Specified in Approved Request
  - “Other”

Old PGI

New PGI

2018 Procure-to-Pay Training Symposium
Area of Focus - MOCAS

**MOCAS Contract Population**

- **Contracts with PGI, 99K, 26%**
- **Non-PGI Contracts, 277K, 74%**

Data as of March 23, 2018

**Total Active Contracts = 376K**
- 99K Meet Criteria for Payment Instruction
  - 1K Processing against PGI 12 “Other”

**MOCAS Obligation Values**

- **Contracts with PGI, $716B, 32%**
- **Non-PGI Contracts, $1.5T, 68%**

Total Active Contract Value = $2.2T
- $716B Meet Criteria for Payment Instruction
  - $40B Processing against PGI 12 “Other”

Data as of March 23, 2018
Payment Instructions – MOCAS Systemic Solution

**Point Forward Approach**

*Existing Contracts* – Utilize previous PGI codes.

*New Contracts* – program MOCAS logic to systemically apply new PGI matrix.

- Automated Implementation of New PGI Guidance
- Prevents Significant Manual Intervention by Contract Input and Recon
- Promotes API
- Minimizes Increase to Customer Costs

- Concurrent PGI logic
- Training/Confusion in Application (manual)
- Potential for Delay in Payment (manual)
Payment Instructions – MOCAS Interim Solution

**Point Forward Approach**

*Existing Contracts* – Utilize previous PGI codes and system logic

*New Contracts* (12/1/17 Forward) – crosswalk to new PGI matrix and CDR as necessary

- Meets Intent of New PGI Guidance
- Utilizes Existing Programming
- Prevents Significant Manual Intervention by Contract Input and Recon
- Promotes API
- Minimizes Increase to Customer Costs

- Concurrent PGI Logic
- Manual Front End Support by KT Input (Assign PGI)
- Manual Processing of PBPs and CFIs
- Training/Confusion in Application
- Potential for Delay in Payment (manual)
Common Scenarios Encountered

1) Contract issued after 12/1/17 that requires a payment instruction but one is not cited
   A. DFAS will issue CDR requiring reference to the new payment instruction matrix

2) Contract issued pre-12/1/17 with a CDR on it for not citing a payment instruction
   A. Contract will be required to reference the new payment instruction matrix and invoices will be paid according to the prescribed allocation methodology for that invoice type.

3) Contract issued pre-12/1/17 that originally didn't require a payment instruction (i.e. was single funded and no financing) but was modified in such a way that a payment instruction is now required
   A. Contract will be required to reference the new payment instruction matrix and invoices will be paid according to the prescribed allocation methodology for that invoice type.

4) Contract issued pre 12/1/17 that originally cited a previous payment instruction (1-11). Contracting Officer requests to modify the contract to change the payment instruction to a different clause under the old logic.
   A. It depends. These will be handled on a cases by case basis. While the new instructions should be used, DFAS will work with the ACO/PCO to determine best way forward.
DFARS PGI 204.7108(d)(12):

- Other. If none of the payment instructions identified in paragraph b2 of this section are appropriate, the contracting officer may insert other payment instructions, provided the other payment instructions
  - i. provide a significantly better reflection of how funds will be expended in support of contract performance: and
  - ii. are agreed to by the payment office and the contract administration office. A copy of the agreement will be kept in the contract file.

New Process:

- Pursuing use of a Memorandum for Record (MFR)
  - Provides justification for why “Other” is necessary
  - Agreed upon by PCO, ACO, and DFAS
  - Kept with the contract file for audit purposes

- Requests for use of “Other” should be coordinated through the DFAS/DCMA Liaisons

Note – use of this payment instruction will require additional manual effort on the part of DFAS, at an increased cost to the customer.
Way Forward

• Provide assistance and training to reporting entities.
• Continue working with the reporting entities to address implementation challenges. Issues raised include:
  – Applying fiscal year order – when a line item is funded by only one reporting entity with different fiscal year appropriation. E.g. construction or research contracts
  – Using Sequential ACRN order – has no relationship with the receipt/delivery of goods and service. Thus, can’t be used.
  – PGI “Other” category - the contracting officer may use other payment instructions, when it:
    • Provide a significantly better reflection of contract performance; and
    • Agreed by the payment office and contract administration office

ODCFO will assess how the 'other' approval process will be executed and how the Financial Managers will be involved in the process to ensure compliance with GAAP.

• Assess the impact of the revised PGI on the accuracy of the financial data.
• Re-emphasize importance of proper line item structure