

REVOKES

NO.

MANUAL OF ORDERS

MAO 510-3

EFFECTIVE DATE

February 7, 1979

SUBJECT

OBLIGATION AND DEOBLIGATION OF FUNDS FOR
CONSTRUCTION-DIFFERENTIAL SUBSIDY (CDS)

Section 1. Purpose.

This order establishes responsibilities and procedures governing the obligation, deobligation and administrative commitment of funds for construction-differential subsidy (CDS) contracts.

Section 2. Definitions.

2.01 Unconditional contract means a binding agreement which, upon execution, creates legal rights for and imposes enforceable liabilities on the parties to the contract.

2.02 Conditional contract means that an offer by the Government to enter into a contract is subject to the satisfaction of specific terms or conditions. A conditional contract is revocable, and the Government has no liability to perform, until the condition is satisfied.

2.03 Obligation means the recording of a specific amount of appropriated funds in the accounting system which the Government is definitely liable to pay under a contract.

2.04 Deobligation means the cancelling of an obligation because of the cessation of the Government's liability to perform under a contract, or the decrease of a recorded obligation because the obligated funds are in excess of the Government's liability.

2.05 Administrative commitment means the earmarking of appropriated funds in the accounting system for anticipated Government liabilities. An administrative commitment is made for conditional contracts, and will be eventually converted to an obligation when the terms of the condition have been satisfied.

2.06 Allotment means the authorization for designated agency officials to create obligations and administrative commitments and to make expenditures up to specified amounts under specified appropriations. Allotments are made under the authority of 31 U.S.C. 665 and related documents.

Section 3. Responsibilities and Procedures.

3.01 The Office of Subsidy Contracts shall:

- 1 In coordination with the Office of the General Counsel, develop the special contractual language describing the conditions, if any, required to be included in conditional CDS contracts. The language shall be specific with regard to the date by which the conditions must be satisfied and shall provide for the automatic termination of the contract in the event the conditions are not met by that date. Data concerning the amount of the CDS award shall be obtained from the Office of Shipbuilding Costs for inclusion in the contract.
- 2 Upon notification by the Maritime Subsidy Board that an award of CDS has been approved, inform the Office of Budget and Program Evaluation, the Office of Financial Management and the Office of Shipbuilding Costs, via the Office of the General Counsel, of the particulars and terms of the award, to include a description of conditions contained in the award and advice concerning the need for obligation or administrative commitment of funds.
- 3 Conduct timely reviews of performance with regard to the satisfaction of the terms of conditional contracts and provide applicable notification to the Office of the General Counsel, the Office of Shipbuilding Costs and the Office of Financial Management.
- 4 Advise the Maritime Subsidy Board when automatic termination of a conditional contract has occurred because of nonperformance of specified conditions, and make suitable recommendations for notifying the parties to the contract and on other matters related to the issue. Copies of the advice to the Maritime Subsidy Board shall be provided the Office of the General Counsel, the Office of Budget and Program Evaluation and the Office of Shipbuilding Costs.

3.02 The Office of Shipbuilding Costs shall:

- 1 Provide data concerning the amount of CDS awards to the Office of Subsidy Contracts for inclusion in CDS contracts and to the Office of Budget and Program Evaluation for appropriate action concerning availability and allotment of CDS funds.
- 2 Notify the Office of Financial Management as to the dollar value of a CDS contract within 72 hours, excluding Saturdays, Sundays and holidays, after execution of the document. This

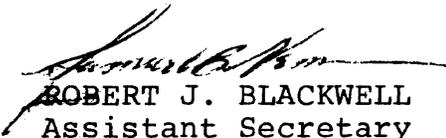
notification shall include the requirement to record the dollar value as an obligation in the case of an unconditional CDS contract, or as an administrative commitment in the case of a conditional CDS contract.

- 3 Inform the Office of Financial Management of the requirement to convert administrative commitments to obligations upon notification by the Office of Subsidy Contracts that the terms of conditional contracts have been satisfied.
- 4 Notify the Office of Financial Management of required adjustments to obligations or administrative commitments due to contract amendments, change orders or contract escalation clauses.
- 5 Conduct periodic reviews of CDS contracts to determine the validity of obligations and to identify unexpended obligations which may exist after the expiration of a contract. Obligations which are no longer valid or which exist after contract expiration shall be reported to the Office of Financial Management for deobligation.
- 6 Inform the Office of Financial Management of the requirement to deobligate funds or to cancel administrative commitments upon notification by the Office of Subsidy Contracts that a conditional contract has been terminated because of nonperformance of conditions.

3.03 The Office of Financial Management shall:

- 1 Establish necessary files and records in the accounting system to enable monitoring of CDS funding requirements upon notification by the Office of Subsidy Contracts that an award of CDS has been approved by the Maritime Subsidy Board.
- 2 After execution of a contract and based on information submitted by the Office of Shipbuilding Costs, record the dollar value of the contract as an obligation if the contract is unconditional and has come into full force and effect, or as an administrative commitment if the contract is conditional.
- 3 Convert administrative commitments to obligations upon notification by the Office of Shipbuilding Costs that the terms of conditional contracts have been satisfied.
- 4 Perform deobligations or cancel administrative commitments, as applicable, when notified by the Office of Shipbuilding Costs that such action is required because of nonperformance of an unconditional contract or nonsatisfaction of the terms of a conditional contract.

- 5 Adjust obligations or administrative commitments as necessary for contract amendments, change orders or escalation adjustments based on information submitted by the Office of Shipbuilding Costs.
 - 6 Provide the Office of Budget and Program Evaluation with reports on obligations, deobligations and administrative commitments (including their cancellation) as they occur.
 - 7 Conduct quarterly reconciliations of obligations and administrative commitments, resolving any discrepancies with the Office of Shipbuilding Costs.
- 3.04 The Office of the General Counsel shall:
- 1 Be responsible for the drafting of CDS contracts. Input for and comments on such contracts shall be obtained from the Office of Subsidy Contracts, the Office of Financial Management and the Office of Shipbuilding Costs.
 - 2 Provide legal advice and assistance with respect to the interpretation or applicability of pertinent contracts, regulations and laws as the case may be.
- 3.05 The Office of Budget and Program Evaluation shall:
- 1 Plan for and control the allotment of funds for CDS awards, including obligations and administrative commitments, by monitoring and reviewing the status of CDS awards.
 - 2 Upon notification by the Office of Subsidy Contracts that a CDS award is under consideration, determine the availability of, and if necessary take action to obtain, sufficient funds for the award. Inform the Office of Subsidy Contracts of the availability or nonavailability of required funds.
 - 3 Allot necessary funds for obligation or administrative commitment when notified by the Office of Subsidy Contracts that the Maritime Subsidy Board has approved a CDS award.
 - 4 Maintain necessary files and records of allotments, obligations, administrative commitments and cancellations thereof and deobligations performed under the provisions of this order to ensure that such actions are properly recorded in Agency budget documents.


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for Maritime Affairs