Declining Balance Order (DBO) Parameters
Current Approved Version: 11/15/2023
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What is a DBO?:

- A Declining Balance Order (DBO) is a type of purchase order primarily used for blanket purchase agreements. It is typically characterized by being a single-line item order, where transactions are entered and tracked by cost (in dollars) rather than quantity.
- This format is particularly useful for managing ongoing services where the exact quantities and costs may vary over time.

Why are these parameters important?:

- Year-End Reconciliation: Adhering to these parameters simplifies year-end reconciliation processes by reducing manual efforts in matching receipts and invoices, ensuring more streamlined and error-free accounting.
- Invoicing Efficiency: Clear guidelines minimize invoicing frictions, allowing for smoother financial operations and administrative processes.
- Data Integrity: Proper use of DBOs is essential for maintaining accurate procurement data. Excessive or inappropriate use of DBOs can skew this data, leading to challenges in tracking and managing procurement activities.
- Compliance with eVA and Management Agreements: Excessive use of DBOs can impact VCU's obligation to route a certain percentage of transactions and dollars through eVA (Electronic Virginia), potentially affecting the university's management agreement. Ensuring that DBOs are used appropriately and not excessively is crucial for maintaining compliance with these requirements and preserving the integrity of VCU's procurement system.

When to use:

- The services are recurring purchases.
- The order involves variable dollar amounts and/or quantities.
- The services on an order may change over time.
- The maximum order amount may need to be adjusted over time.

Guidelines:

- DBOs should not be created for vendors with e-Catalogs in RealSource.
- DBOs should not cross fiscal years.
- Exceptions **may** include the following:
  - Milestone delivery payments
  - Service on VCU equipment
  - Facilities construction projects
  - Grant purchases with specific requirements that conflict with these parameters
- DBOs should **typically** be created for a single line item.
- DBOs for goods and services with multiple deliverables and milestones should have separate line items to manage project deliverables and payment. Please note that these are typically limited to DBOs for facilities-related purchases.
- The estimate used on the initial DBO is a realistic dollar amount.
- All DBOs should contain verbiage specifying the PO period (should **not** cross fiscal years). For example:
- DBOs must be carefully verified against consistent contract pricing, tracked, and reconciled by the department for the various payments that may occur during the fiscal year. At the end of the fiscal year, the DBO should be adjusted to cover any over/under usage.
- At the end of the PO period, the remaining encumbrance should be liquidated to close the old PO and a new DBO should be created for a new specified period of time. A new line item for a new period should **not** be created under the existing PO.
- Departments should communicate with their vendors when VCU intends to issue a DBO. This is important, as eVA will charge the transaction fee upfront.
  - NOTE: The fee is 1% of the order's cost, capped at $1500 per order for most vendors, and a $500 cap for certified SWaM Businesses. The fee cap applies per purchase order, not on the cumulative purchase order value.
- If your department will not use the entire amount entered on the order, you must reduce the amount of the order within RealSource by completing a change request.

**Example of Proper Use of DBO:**

- An example of proper use of a DBO would be if VCU was creating a PO to pay variable charges to a utility provider on a monthly basis for FY24. The DBO would be entered for July 1, 2023 – June 30, 2024, with a total estimated amount of $900,000.
- The description should read as follows: “THE AMOUNT IS AN ESTIMATE FOR GOODS AND/OR SERVICES TO BE PROVIDED DURING THE PERIOD OF JULY 1, 2023 - JUNE 30, 2024. THIS IS AN ESTIMATE ONLY, NOT A GUARANTEE.”

**Example of Improper Use of a DBO:**

- An improper use of a DBO would be creating one for a vendor that has an e-Catalog in RealSource for the calendar year.
For instance, if a department at VCU issues a DBO for office supplies to a vendor already listed with a comprehensive e-Catalog, this would be considered inappropriate.

If the DBO crosses fiscal years, this would also be inappropriate.

Such a DBO not only bypasses the streamlined ordering process provided by the e-Catalog but also potentially disrupts the tracking and management of procurement data.

Additionally, using a DBO for one-time purchases or for items that are clearly defined in quantity and cost upfront would be an incorrect application of this order type.