The Acquisition institute

Contract Closeout Guidebook

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FOREWORD

Few issues within the defense acquisition community today share the importance and visibility associated with our efforts to improve the contract closeout process. This issue is critical to our mission, far more so than for contractors.

There is a general belief that a contract is completed when final delivery is made of the required goods and services and the Government has made acceptance and final payment to the contract. However, in the administrative contracting arena, a contract is not complete and ready for closeout until the contractor complies with all the terms of the contract. This includes those administrative actions that are contractually required; i.e. accounting, property, security, patents and royalties.

Closeout is completed when all administrative actions have been completed, all disputes settled, and final payment has been made. The process can be simple or complex depending on the contract type. Contract closeout requires coordination between the contracting office, finance office, program office, auditing office and the contractor.

The objective of this guidebook is to provide you with practical techniques and practices that our both Contract Management Offices and other Government Contracting officers are using to improve contract closeout. The contents are discretionary and support DCMA policy and the FAR.

ABBREVIATIONS AND GLOSSARY

ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
BOA	Basic Ordering Agreement
CACO	Corporate Administrative Contracting Officer
CACS	Contract Audit Closing Statement
CAR	Contract Administration Report
CAS	Contract Administration Services
CLIN	Contract Line Item Number
CMO	Contract Management Office
COA	Certificate of Acceptance
COTR	Contracting Office Technical Representative
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCAAM	Defense Contract Audit Agency Manual
DCMA	Defense Contract Management Agency
DCMD	Defense Contract Management District
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DLAD	Defense Logistics Agency Directive
DLAM	Defense Logistics Agency Manual
DLAR	Defense Logistics Agency Regulation
DMC	Defense Megacenter
DODAAD	Department of Defense Activity Address Directory
DPAS	Defense Priorities and Allocation System
DIS	Defense Industrial Security
FAR	Federal Acquisition Regulation
FAD	Final Acceptance Date
FDD	Final Delivery Date
FMS	Foreign Military Sales
F NLA	Final Notice of Last Action
FOB	Free On Board
FOIA	Freedom of Information Act
FY	Fiscal Year
GFE	Government Furnished Equipment
GFM	Government Furnished Material
GFP	Government Furnished Property

IDIQ	Indefinite Delivery Indefinite Quantity
IS	Industrial Specialist
MOCAS	Mechanization of Contract Administration Services
MOD	Modification
NLA	Notice of Last Action
NSN	National Stock Number
O&M	Operation and Maintenance
ODO	Other Disbursing Office
OT	Other Transactions
PA	Property Administrator
PCO	Procuring Contracting Officer
PCSN	Production Schedule Completion Notice
PIIN	Procurement Instrument Identification Number
POP	Period of Performance
PO	Purchase Order
QA	Quality Assurance
QAR	Quality Assurance Representative
R&D	Research and Development
SBA	Small Business Administration
SBS	Small Business Specialist
SCN	Ship and Military Construction
SPIIN	Supplemental Procurement Instrument Identification Number
ST	Special Tooling
STE	Special Test Equipment
TAG	Technical Assessment Group
TCO	Terminating Contracting Officer
T&M	Time and Material
ULO	Unliquidated Obligation
WIP	Work in Process

1. Scope

This document provides basic guidance pertaining to Contract Closeout. It includes information on ways to improve the contract closeout process. This document is supplemental to Federal Acquisition Regulation (FAR), subpart 4.804, Closeout of Contract Files, FAR 42.708, Quick Closeout Procedures, Department of Defense (DOD) FAR Supplement (DFARS) part 204.804, Closeout of Contract Files, DCMA Contract Closeout, and Defense Logistics Agency Manual (DLAM) 8000.3, Mechanization of Contract Administration Services (MOCAS) Manual.

This document describes contract closeout, at the end of the administration process. Every effort should be made to assure database integrity throughout the life of the contract. Properly maintaining an accurate record of contract modifications and obligation adjustments will facilitate contract closeout activity.

2. Policy

For DOD, the Defense Contract Management Agency (DCMA) Contract Closeout policy is delineated in their One Book.

Process Responsibility

Process responsibility is defined for Contract Closeout as the Administrative Contracting Officer (ACO) at the Contract Management Office (CMO) leading the Contract Closeout process and ensuring coordination among DCMA personnel, DFAS (or other appropriate payment offices for other government units), the Buying Activity, DCAA (other audit agencies), the contractor, and as necessary, the Office of Counsel, Defense Criminal Investigative Service (DCIS), Inspector General (IG), and the Department of Justice to close a contract.

Priority

DCMA policy is to close all contracts in accordance with FAR 4.804(a), and institute process improvements which, when combined with DCAA audit improvements and contractor timely submission of final vouchers, will expedite contract closeouts. With the impending MOCAS retirement in the future, it is important to accelerate closeout. DCMA policy for closing Other Transactions and similar agreements is to ensure that all necessary actions are accomplished within 24 months of expiration of the agreement. To the maximum extent possible and where appropriate, Quick Closeout procedures shall be used.

3. References

FAR 4.804, Closeout of Contract Files
FAR 42.708, Quick Closeout Procedures
FAR 52.211-16 Variation in Quantity
FAR 52.216-2 Economic Price Adjustment
FAR 52.216-7 Allowable Cost and Payment
FAR 52.216-8 Fixed Fee
FAR 52.216-16 Incentive Price Revision
FAR 52.232-7 Payments under Time and Material/Labor Hour Contracts
DFARS 204.804, Closeout of Contract Files
DLAD 5000.4 (One Book), Contract Closeout, Chapter 10.2
DLAM 8000.3, MOCAS Manual, Part 2, Chapter 4, Prime Contract Closeout Procedures

4. Contract Closeout Time Standards

FAR 4.804 sets specific time periods for closing contracts. Timely closeout deobligates excess funds and returns remaining funds for possible use elsewhere. It also minimizes the costs associated with administration and closeout processes. This benefits all parties and allows all affected activities to concentrate on current and future requirements.

Based on Physical Completion:

The time period for closing a contract is based upon both the type of contract and date of physical completion. A contract is considered to be physically complete when:

- The contractor has completed the required deliveries and the Government has inspected and accepted the supplies.
- The contractor has performed all services and the Government has accepted these services.
- All Option provisions, if any, have expired.
- The Government has given the contractor a notice of complete contract termination.
- Facilities contracts and rentals, use and storage agreements are considered to be physically complete when:
    - (a) The Government has given the contractor a notice of complete contract termination.
    - (b) The contract period has expired

Time Standards

Time Standards in accordance with FAR 4.804:

Contract Type	Calendar Months After The Month in Which Physically Completed
Contracts Using Simplified Acquisition Procedures	Evidence of Receipt and Final Payment
All Other Firm Fixed Price Contracts	6 Months
Cost-Reimbursement Contracts including Time and Material (T&M) and Labor Hour (LH) contracts.	36 Months
All Other Contract Types	20 Months

PCO Notification: Although DFARS 204.804-2(2) states that if the ACO cannot close a contract within the specified time period, the ACO shall notify the Procuring Contracting Officer, within 45 days after the expiration of the time period, the current DCMA policy requires the input of a reason for the delay and the new target date for closeout as soon as you know the contract will become MOCAS (R9 Code).

If the contract still is not closed out by the new target date, the ACO shall again notify the PCO with the reasons for the delay and a new target date. To facilitate timely notification to the PCO, the ACO must input an Estimated Completion Date (ECD) and an overage reason code in the R2 line of MOCAS.

This will transmit an unclosed contract status notification (PKX) to the PCO (which is the DFAR allowed electronic equivalent of the interim DD 1594).

Additionally, the ACO should perform necessary steps described in Section 14, Management of Overage Contracts, of this document.

5. Fixed Price Closeout

Background:

Difficulties encountered in closing out fixed price contracts are more than likely associated with documentation of deliverables or with unliquidated obligation balances.

Moving Physically Completed Contracts to CAR Section 2:

The following guidelines are suggested for moving a fixed price contract to CAR Section 2:

Contracts will remain in CAR Section 1 until *both* of the following conditions have been met:

1. A final acceptance document (Z-DD250 or other acceptance document) has been received and entered into MOCAS, and
2. The LISSR shows that the quantity of items shipped equals the quantity of items ordered (e.g., all line items are balanced), or are within the authorized quantity overrun/underrun variances of the contract.

The final shipment document should be the alert to the Industrial Specialist or Procurement Technician to input production history in MOCAS which will generate a "Production Complete" remark on the R8 line of the MOCAS data record. The presence or lack thereof of the production complete remark has no bearing on whether a contract moves automatically to Section 2.

The contract should automatically move to Section 2 after the final acceptance information has been processed. The movement of a contract into Section 2 causes several things to happen.

- A Final Acceptance Date (FAD) appears on the R2 line of the MOCAS data record,
- The MOCAS 6-month closeout clock starts when the contract moves to Section 2 (physical complete date)*, and
- An interim PK9, (Physically Completed and

Accepted) will automatically be sent to the buying activity providing notice of physical completion and represents a start date for contract closeout.

**Note: The DCMA Performance Metric measures the time to close from the FAD, per the FAR definition.*

Problems With Contracts Moving to CAR Section 2:

If you encounter problems with contracts not automatically moving to Section 2, the following checks are suggested:

1. Has the final acceptance document been entered into MOCAS?
   - If not, the action should be coordinated with the CMO Terminal (DD 250 input), QAR and/or contractor to make sure that the document is input into MOCAS.
   - Screen the LISSR for out of balance line items.
   - Use norm analysis in compass or SDW to identify contracts in Section 1 that are 30 days past their FDD and have production history built in MOCAS
   - Action should also be taken to ascertain the appropriateness of the R8 remark. If the production history was entered in error, the Industrial Specialist or Procurement Technician should take appropriate action.

Awaiting Final Acceptance

Contracts with destination acceptance requirements may hold up movement to Section 2. Obtaining this acceptance is a DFAS responsibility. However, many times final acceptance documents will not be received at the CMO Terminal or at the payment office. The ACO can then request a statement of final acceptance from the customer and annotate the ACO notebook.

After Movement to CAR Section 2:

Closeout Checklist

Movement of a contract into Section 2 will prompt the ACO to perform several actions.

Contract Funds Status Review

- Identify and Deobligate any Excess Funds
- Disposition of Government Property
- Disposition of Classified Material
- Verify that All Final Reports Have Been Accepted

The completion of the DD Form 1597 is required for all manually closed contracts. A "manually closed contract" is a contract that is closed based on ACO certification. It is a good idea to begin filling out a checklist when a contract moves into Section 2. All closeout actions are listed on one sheet and the ACO will not have to dig through a folder to find out when or what happened with a closeout action.

FAR 4.804-5 explains that once a CMO receives evidence of physical completion, you must review the contract funds status and notify the PCO of any excess funds available for deobligation at the outset of the closeout process.

1. When excess or negative unliquidated funds exist, a funds review should be performed at the ACRN level to determine the cause.
   a. If it is determined those excess funds are as a result of unperformed work due to a specific line item or deliverable on the contract, these should be removed and the ACO must issue a modification accomplishing the deobligation. The CMO is no longer required to obtain PCO authorization prior to deobligating excess funds.

If there is a negative ULO (NULO) at the contract or ACRN level, any adjustments must be made by sending a DD1797 to DFAS, explaining the discrepancy and the action needed.

NOTE: Adjustment requests are completely different than a request for reconciliation (full blown audit). A request for reconciliation is required when the ACO *cannot* identify the disbursement problem. If you can identify the disbursement discrepancy, then you are requesting an adjustment or correction.

b. Does the WIP ULO balance equal $0.00? Unliquidated progress payment balances must be cleared prior to closeout. In order to clear the WIP ULO, it is recommended that research be conducted with the contractor and DFAS to resolve problems.

On occasion problems arise in closing out contracts with a .01 ULO remaining on the ACRNS. The .01 ULO was used for cancelled funds process *prior to* the alpha cancelled funds indicator process. Send a 1797 to DFAS asking them to adjust the "penny down" and close the contract. DFAS has been working on reducing their backlog of 1797 adjustment requests from ACOs and are making progress, and we continue to work with them on this topic. If you have one or a group of adjustments that you feel should have been taken care of by now, please contact your district process champion or FASST member for assistance. During the contract closeout process, the CMO is no longer required to obtain PCO authorization to deobligate excess funds.

Government Property

Has all Government Furnished Property (GFP) been dispositioned? If the contract contains property clauses, a DD1593, Contract Administration Completion Record, is automatically generated by MOCAS when the contract becomes physically complete and can be retrieved by the CMO through REVEAL. When the property has been cleared the property administrator inputs the disposition into DPADs and an R9 code "55" will appear in MOCAS. If the Code 55 is missing, a DD1593 should be submitted to the Property Administrator for review and clearance. The contract will not close unless the Code 55 remark is indicated.

Classified Material

Does the contract contain classified material (DD254)?

If so, the Defense Investigative Service (DIS) should be *notified* that the contract is complete and classified material should be dispositioned. Be sure the prime contractor has cleared all subcontracting DD254s. The DD 1597 shall be documented with this notification date. Appendix B of the DD254 instruction book states that the COR is responsible for the disposition of any classified material and for providing notification to the PCO. Therefore, the ACO does not need confirmation or certification of completed actions from the security office to proceed with closeout.

Final Patent/Royalty Reports

Have all final reports been obtained and forwarded to the buying activity? If the contract contains FAR 52.227-11, a final patent report is required only if there is an invention. If DFAR 252.227-7039 is also in the contract.

1. In accordance with contract provisions, the contractor will submit a final royalty and final report of inventions (DD Form 882 - Reports of Inventions and Subcontracts) to the ACO within 90 days following physical completion.

Reminder! ACO must withhold final payment for non-receipt of required clearances for large contractors only.

2. Upon receipt, the ACO will forward the report (including negative reports) to the PCO requesting that the report be sent to the program office and cognizant patent counsel for clearance. If clearance has not been received on a negative report within a reasonable timeframe, the ACO should inform the PCO of the impact on contract closeout and request a date by which the clearance will be provided.

Movement to CAR Section 5:

Once all required closeout actions have been completed, the ACO should take the following actions to effect the movement of the contract out of MOCAS and to provide closeout notification to the buying activity.

Verify that a Final Pay NLA been issued. For Part A contracts, MOCAS will generate the NLA when final payment has been processed.

Reminder: If MOCAS does not contain final payment information on the CCN screen (final voucher number and final payment date), the ACO should create a G NLA, which will populate those fields and allow an F NLA to process.

1. Once the Final Pay NLA remark is entered on the R7 line of the MOCAS data record, the ACO can proceed with closeout in accordance with MOCAS Manual, DLAM 8000.3, Chapter 4, Section 2.4.5. On the following workday, the ACO should verify that the contract actually moved to Section 5.

2. MOCAS will automatically generate a PK9, Contract Completion Statement, in lieu of a DD 1594, which notifies the buying activity that the contract is closed.

Closing Other Disbursing Office (ODO) Contracts:

For Other Disbursing Office (ODO) contracts, with the exception of DLA ODOs (discussed in another chapter), verification should be made with the payment office that final payment has been made and that the ULO balance equals zero.
Prepare a DD1593 or other closeout documentation that all actions are complete, create a G NLA and process the F NLA.

Closing Non-MOCAS Contracts:

A DD1594 must be completed and sent to the PCO with a copy retained in the contract file.

6. Cost-Reimbursable Closeout

Background

Cost type contracts are usually the most complex contracts to administer and to close. They rely upon actual costs that may not be agreed to for years after physical completion. There are several initiatives in place that would preclude delays in settling indirect cost rates, including Real Time Rates. However, to prevent closeout problems, the contractor and contract should be monitored.

Monitoring Cost-Reimbursable Contracts

Contractor areas that should be monitored include:

- Indirect Cost Settlement
    a. What year are rates settled through?
    b. Are there any overdue cost proposals?
    c. What is the status of DCAA audit of the incurred cost proposal?
    d. What is the status of final voucher submission, by fiscal year?
- DCAA Form 1 Issues
- Corporate Allocations
- Utilization of Quick Closeout

It is helpful when individual contracts are monitored in the following areas:

- Period of Performance
- Timely Submittal of Required Reports and Data Items
- Funding Status
    a. Total Obligations By ACRN
    b. Canceling Funds Identified
    c. Current Funding Balance Correct in MOCAS
- Public Vouchers
    a. Previous Amounts Paid
    b. Obligated Funds Correct
    c. Fee Withholding, if any, Identified and Correct

By monitoring contractor and individual contract status, the problems associated with the closeout process, including final reconciliation of funds, will be minimal.

Movement to Section 2 - Physical Completion

Cost type contracts will remain in Section 1 until completion of contract performance. Upon evidence of contract completion (receipt of final acceptance document), the

Industrial Specialist or Procurement Technician will input the production history and balance the Line Item Schedule and Shipment Record (LISSR). Upon evidence of physical completion, the ACO should request the Trusted Agent (TA) to move the contract to Section 2.

After final acceptance, if the contract does not automatically move to Section 2, then the ACO must request the TA to move it to Section 2 which causes several things to happen:

- A Completion Date (date moved to Section 2), Final Acceptance Date (FAD), and Overage Date now appears on the R2 line of the MOCAS data record,
- The MOCAS 36-month closeout clock starts on the date the contract moved to Section 2 (physical complete date)*,and
- An interim PK9, "Physically Completed and Accepted", will automatically be sent to the buying activity providing notice of a start date for contract closeout.

**Note: The DCMA Performance Metric measures the time to close from the FAD, per the FAR definition.*

Awaiting Final Acceptance

Contracts with destination acceptance requirements may hold up movement to Section 2. Obtaining this acceptance is a DFAS responsibility. However, many times final acceptance documents will not be received at the CMO Terminal or at the payment office. The ACO can then request a statement of final acceptance from the customer and once received, should annotate the ACO Notebook and request the TA to move the contract to Section 2

After Movement to Section 2

Movement of a contract into Section 2 will prompt the ACO to perform several actions.

- Identify and Deobligate any Excess Funds
- Disposition of Government Property
- Disposition of Classified Material
- Verify that All Final Reports Have Been Accepted
- Obtain Status of Final Indirect Cost Rates
- Receipt and Review of Final Voucher

Closeout Checklist

The completion of the DD Form 1597 is required for all manually closed contracts. It is a good idea to begin filling out a checklist when a contract moves into Section 2. All closeout actions are listed on one sheet and the ACO will not have to dig through a folder to find out when or what happened with a closeout action.

Identify Excess Funds

FAR 4.804-5 explains that once a CMO receives evidence of physical completion, you must review the contract funds status and notify the PCO of any excess funds available for deobligation at the outset of the closeout process. A reconciliation of obligations at the ACRN level and a review of the posting of disbursements will be necessary before excess funds can be identified and deobligated.

Government Property

Has all Government Furnished Property (GFP) been dispositioned? If the contract contains property clauses, a DD1593, Contract Administration Completion Record, is automatically generated by MOCAS when the contract becomes physically complete and can be retrieved by the CMO through REVEAL. When the property has been cleared the property administrator inputs the disposition into DPADs and an R9 code "55" will appear in MOCAS. If the Code 55 is missing, a DD1593 should be submitted to the Property Administrator for review and clearance. The contract will not close unless the Code 55 remark is indicated.

Classified Material

Does the contract contain classified material (DD254)? If so, the Defense Investigative Service (DIS) should be notified that the contract is complete and classified material should be dispositioned. Be sure the prime contractor has cleared all subcontracting DD254s. The DD 1597 shall be documented with this notification date. The ACO does not need confirmation or certification of completed actions from the security office to proceed with closeout.

Final Patent/Royalty Reports

Have all final reports been obtained and forwarded to the buying activity? If the contract only contains FAR 52.227-11, a final patent report is required only if there is an invention or if DFAR 252.227-7039 is also in the contract.

3. In accordance with contract provisions, the contractor will submit Final Royalty and Final Report of Inventions (DD Form 882) to the ACO within 90 days following physical completion.

Reminder!! ACO must withhold final payment for non-receipt of required clearances for large contractors only.

4. Upon receipt, the ACO will forward the report (including negative reports) to the PCO requesting that the report be sent to the program office and cognizant patent counsel for clearance. If clearance has not been received on a negative report within a reasonable timeframe, the ACO should inform the PCO of the impact on contract closeout and request a date by which the clearance will be provided.

Submission of Final Voucher

Once indirect cost rates are settled for all contractor years with contract performance, a contractor has 120 days to submit a final voucher and closing package to the ACO for audit review and ACO approval for payment.

DCAA Audit of Final Voucher

The ACO in coordination with DCAA may determine that an audit is not required on a final voucher. The ACO can utilize the Cumulative Allowable Cost Sheet included in the indirect cost audit report. This sheet contains cumulative allowable costs by contract and also indicates if the contract is ready to close. If the ACO cannot determine the cumulative allowable costs or if a labor hour review is required, the ACO should ensure that a Contract Audit Closing Statement (CACS) is received.

Final Voucher Review/Approval

ACO review/approval of a final voucher should include:

- Verification that all contractual requirements have been satisfied,
- Completion of any fee adjustments.
- Verification that contractual funding limitations have not been exceeded.
- Identify the application of any DFAS offsets.
- Accuracy of Contractor Release and Assignment.
- Verification that all previous contractor vouchers have been paid.
- Verification that the final voucher is identified as a “Final Voucher” and has a "Z" next to the voucher number.
- Approve for payment with ACO signature and date.
- Deobligation modification processed and distributed for any funds determined to be excess.
- Forward the final voucher to the payment office for processing.
- For Level of Effort (LOE) this clause requires fee adjustments based on the number of hours actually

Closeout of Cost Contracts

Upon processing and payment of the final voucher by DFAS, the contract should move to Section 5. If payment is made and the contract does not close, the ACO should first verify that all prior vouchers have been paid and the payment was coded as a final payment (type 1 code) in the disbursement history. If this is the case, then the ACO can request their trusted agent to generate a G NLA to be processed by the ACO. If the payment is coded as a type 2 and there are remaining funds, the ACO should annotate the Notebook and process a "G NLA " and a "F NLA".

> *Reminder!! Identify remaining funds on the MOCAS ACO notebook screen.*

Contract Completion Statement

The ACO is required to report final payment and completion of all administrative actions to the buying activity on a DD 1594. When contracts close in MOCAS, the system will generate a MILSCAP Format PK9 Notice, which is used in lieu of the DD 1594 per DFAR.

If a contract is closed with a ULO balance, MOCAS will automatically generate a Q Final transaction to reduce the ULO to zero only in MOCAS. As a result of the Q Final transaction, a “CLR Obligation Auto-Adjustments Resulting From CNN Action” list is generated. DFAS reviews the list to determine which contracts must be reopened and/or adjusted for financial reconciliation.

DFAS will automatically reopen those contracts where reconciliation is necessary. The contract may reopen in Section 1 or Section 4. If ACO assistance is necessary, DFAS will contact the ACO directly.

Cancelled Funds (Replacement Funds Required)

If adequate funding was on the contract but has since canceled, the ACO will submit the final voucher to DFAS for payment. The voucher will reject for insufficient funds and DFAS will code it “DMACT” in the invoicing screen of MOCAS. After verification, DFAS will request replacement funding from the funding activity.

NOTE: It is very imp;ortant for ACO to monitor final vouchers that require replacement funds ensuring that the invoice is coded as “DMACT” and included on the current DMACT list posted to the DCMA Canceling Funds page.

Partial payments can occur against the final voucher possibly resulting in premature closeout. ACO’s should monitor contracts to ensure they MOVE out of the MOCAS system.

7. Time and Material/Labor Hour Closeout

Background

Time and Material (T&M) and Labor Hour (LH) contracts offer unique challenges for closeout. The contracts may or may not require actual cost and time audits.

It is recommended that the ACO take a close look at the rate structure of the contract. There are different types of structures that may be identified during contract review.

- Direct Labor Rates Fixed with Indirect Rates Based on Contractor's Provisional Billing Rate
- Direct Labor Rates Fixed with Fixed Indirect Rates
- ACO Negotiated
- Escalation

The ACO should monitor not to exceed amounts on labor and other direct costs (i.e. material and travel) to ensure contractor billing is in accordance with the contract.

Fixed Indirect Rates

When the indirect rates are fixed, the contractor should prepare a final voucher for each contract or task order upon physical completion. The ACO should ascertain whether DCAA audit is necessary.

If the contractor has an adequate accounting and labor recording system, then the final voucher should be analyzed by the ACO, without DCAA assistance. It is suggested that the following areas be considered when reviewing the final voucher:

- Total Labor Hours Required by Contract
- Total Labor Hours Expended
- Total Cost of Material, if any
- Level of Effort

If the contractor's accounting and labor recording systems are inadequate, the ACO should consider the nature of the inadequacy prior to determining whether to forward to DCAA for audit.

Variable Indirect Rates

When the indirect rates are not fixed and the contract is an IDIQ, it is recommended that the ACO incorporate early closeout procedures *(Reference: Chapter on Early Closeout*

Procedures for IDIQ Contracts).

T&M and LH Closeout Procedures

Where early closeout is not applicable, the closeout procedure is identical to the cost-reimbursable closeout procedure. If an audit is required, DCAA will review material costs and labor hours expended to make sure that the charges are consistent with the contract.

Upon receipt of a contract audit completion statement, the ACO should proceed with closeout *(Reference: Chapter on Cost Type Closeout Procedures).*

Note: These contracts will close automatically in MOCAS based on a payment being coded as final (type payment code 1 on disbursement history) and property (if PA code is present) being completed (R9

Remember:

- *For Time and Material type contracts, you may be only negotiating a G&A rate.*
- *For Cost Plus Fixed Fee type contracts, you are negotiating "all" indirect cost rates.*
- *You must ensure that the contractor has prepared and submitted to DCAA the required "Certified" incurred cost proposal for the fiscal year which you are pursuing quick closeout.*

8. Quick Closeout

Background:

The quick closeout process offers an alternative to holding contracts open until indirect cost rates are settled. When it becomes apparent that there will be a delay in the settlement of final indirect rates, it is recommended that the ACO utilize quick closeout where applicable.

FAR Regulation

The procedure is identified in FAR 42.708. Specifically, quick closeout procedures may be used if:

1. The contract is physically complete.
2. The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant. Indirect cost amount are insignificant when:
   i. The total unsettled indirect cost to be allocated to any one contract does not exceed $1,000,000.00.
   ii. Unless otherwise provided in agency procedures, the cumulative unsettled indirect cost to be allocated to one or more contracts in a single fiscal year do not exceed 15% of the estimated total unsettled indirect costs allocable to cost-type contracts for that fiscal year. The contracting officer may waive the 15% restriction based upon risk assessment that considers contractor's accounting, estimating and purchasing systems; other concerns of the cognizant contract auditors, and any other pertinent information.
3. Agreement can be reached on a reasonable estimate of allocable dollars.

Quick Closeout Not a Binding Precedent

Unlike early closeout procedures, the determinations of final indirect costs under quick closeout procedures are final for the contracts it covers and no adjustments are made to other contracts for over or under recoveries of costs allocated or allocable to the contracts covered by the advance agreement. Additionally, indirect cost rates used in the quick closeout of a contract are not considered a binding precedent when establishing the final indirect cost rates for other contracts.

Identifying Quick Closeout Candidates

The ACO should maintain close coordination between DCAA and the contractor in determining quick closeout candidates. The candidates can be identified in various ways:

- DCAA – Sometimes the auditor will contact the ACO and recommend particular contracts for quick closeout. Often times the auditor is approached by a contractor regarding quick closeout. When these recommendations are received, the ACO should review the contracts and any other contracts for that particular fiscal year and determine if quick closeout procedures are practicable.

- PCO – A PCO will sometimes contact an ACO concerning closeout status of a particular contract and will often inquire about quick closeout possibilities.

- ACO – The ACO usually is the primary person who can identify candidates for quick closeout. The ACO should consider the volume of contracts awaiting settlement of indirect rates and that will be affected by canceling funds. Quick closeout is an excellent way to close contracts and preclude millions of dollars from canceling. Another area that ACOs may consider is time and material type contracts. These contracts are ideal for quick closeout because the only redeterminable amount is usually the general and administrative (G&A) costs associated with the other direct costs (ODCs) in the contract.

- Contractor – The contractor will occasionally request quick closeout procedures for a given contract or group of contracts.

Negotiating Quick Closeout Rates:

Once the quick closeout candidates are identified, the ACO should coordinate with the contractor and DCAA before beginning the negotiation of quick closeout rates.

1. The first step the ACO should take is to officially contact the contractor regarding quick-closeout procedures. The letter should include the list of contracts and should request the following information:

   - Proposed/Certified indirect cost rates for three years preceding the fiscal year for which you are pursuing quick closeout.
   - The settled indirect cost rates for three years preceding the fiscal year for which you are pursuing quick closeout.
   - The calculated variance factor between the proposed and settled rates.
   - The proposed/certified indirect cost rates covering the period of performance for the referenced contracts.
   - A contract status for each contract.

2. Once the ACO receives the indirect cost history for the last three settled years, an analysis should be performed. The information that you receive from the contractor may look like the following:

XYZ COMPANY
INDIRECT COST RATE HISTORY

LAST 3 SETTLED YEARS	**PROPOSED CERT. RATE**	**FINAL RATE**
FY 89		
Overhead	123.22%	122.10%
G&A	10.00%	9.50%
FY 90		
Overhead	124.51%	122.50%
G&A	10.50%	10.00%
FY 91		
Overhead	125.00%	123.59%
G&A	12.00%	10.00%
Unsettled Year		
FY 92		
Overhead	125.79%	
G&A	12.57%	

ACO Analysis of the above:

The contractor has proposed using <u>FY 92 certified rates</u> for quick-closeout of contracts completed in their fiscal year 92 (fiscal year 92 rates have not been determined by DCAA). In looking at this history, it is clear that contractor proposed rates were higher than the final determined rates in the past three years. If the ACO should use the contractor proposed FY 92 rates for use in quick-closeout, it is likely that the Government will be overcharged. Since the last three years proposed rates were higher than the audited rates, it is likely that FY 92 proposed rates are higher than what the final determined rates will be. The ACO should consider decrementing the proposed FY 92 rates using the following options.

a. The ACO has two options for determining a rate decrement:

- By use of a factor
- By use of a percentage

b. When using the decrement factor method, the ACO would:

(1) Calculate the difference between the proposed/certified rates and the settled rates for the last three years, which will be the basis for the decrement factor.
(2) Calculate the average decrement factor
(3) Apply the average decrement factor to the unsettled rate to determine the proposed final rate.

<u>Fiscal Year</u>	**<u>Proposed</u>**	**<u>Audited</u>**	**<u>Factor</u>**	Formula
1991	15.23%	15.57%	-.0223	*(15.23 - 15.57) / 15.23*
1992	22.00%	21.85%	.0068	*(22.00 - 21.85) / 22.00*
1993	22.30%	19.86%	.1094	*(22.30 - 19.86) / 22.30*
1994	18.41%		.0939	*(.0223) + .0068 + .1094*

Average: *.0939 / 3 = .0313*
Decrement Factor: *18.41 x 3.13 = .57*
Proposed Rate: *18.41 - .57 = 17.84*

Fiscal year 1992: G&A: 18.41 - .57 = 17.84%

c. When using the decrement percentage method, the results are as follows:

Fiscal Year	Proposed	Audited	Percentage	Formula
1991	15.23%	15.57%	102.23%	*(15.57 / 15.23)*
1992	22.00%	21.85%	99.32%	*(21.85 / 22.00)*
1993	22.30%	19.86%	89.06%	*(19.86 / 22.30)*
1994	18.41%		290.61%	*(102.23 + 99.32 + 89.06)*

Average: *290.61 / 3 = 96.87*
Decrement: *18.41% X 96.87% = 17.83%*
Rate: *17.83*

Fiscal year 1992: 18.41% x 96.87% = 17.83%

d. It is important to analyze the contractor's history. If the contractor has a history of including "unallowable" costs in their indirect cost proposal or inflating indirect rates, it is important to decrement their unsettled year by either establishing a decrement factor or applying a percentage of the difference. By using a decrement, the ACO will ensure that the Government's financial interest is protected.

e. The decrement factor is the most commonly used means of establishing a fair and equitable quick closeout rate. However, the Defense Contract Audit Manual (DCAAM 7640.1, paragraph 6-1010(e)), recommends that the rates be representative of conditions during the final fiscal year of contract performance. Some alternative rate sources are:

(1) the final indirect cost rates agreed upon for the immediately preceding fiscal year;
(2) the provisional billing rates for the current fiscal year; or
(3) estimated rates for the final fiscal year of contract performance based on the contractor's actual data adjusted for any historical disallowance found in prior years' certified final incurred cost proposals.

3. After the ACO has developed the Government

proposed quick-closeout rate, the DCAA auditor should be contacted. Although a written request for audit is not required when the contracting officer exercises quick closeout procedures, the auditor should provide comments regarding any contract being considered for quick-closeout and express any specific concerns related to the criteria. The comments may be received verbally, by facsimile, or in a written format.

4. The final step is the negotiation of a quick closeout rate. The actual negotiation can be conducted by telephone.

Preparing an Advance Agreement:

Once an agreement is reached for the final rate, the ACO should prepare an advance agreement. Both the contractor and the ACO should sign the agreement. A sample Advance Agreement follows:

QUICK CLOSE-OUT AGREEMENT
with
XYZ COMPANY

1. This agreement is entered into by and between the Defense Contract Management [name of office], a Department of Defense activity and XYZ COMPANY organized and existing under the laws of [State], having offices in [City].

2. This agreement is entered into under the authority of Federal Acquisition (FAR) 42.708, "Quick-close-out procedure" and FAR 52.232-7 "Payments under Time-and-Materials and Labor-Hour Contracts" and/or FAR 52.216.7 "Allowable Cost and Payment."

3. The purpose of this agreement is to set forth indirect cost rates for fiscal year 1992 to be assessed against:

"other direct costs" only, which are included in contracts priced on a time and material basis (unless otherwise specified in the contracts).

and/or appropriate direct costs only, which are included in contracts priced on a cost plus fixed fee basis (unless otherwise specified in the contracts).

These contracts will be closed prior to the establishment of indirect cost rates for fiscal year 1992. The subsequent audit of and the establishment of final indirect cost rates for this year will have no affect on the final price and closure of these contracts. There will be no adjustments made to other contracts for over or under recoveries of costs allocated or allocable to the contracts covered by this agreement. These indirect cost rates are hereby established for application to Government contracts as listed in ATTACHMENT A only.

FISCAL YEAR: 1992

OVERHEAD RATE:	*124.28%*
G&A RATE:	*11.57%*

Establishment of these rates shall not be considered a binding precedent when establishing the final indirect cost rates for other contracts.

4. Upon full execution of this agreement, XYZ Company will perform audits of the affected contracts and reconcile all applicable accounts using the indirect cost rates established herein. Once this is accomplished, or within thirty (30) days after full execution of this agreement, whichever is sooner, XYZ Company will submit to the Administrative Contracting Officer, a final voucher for each of the affected contracts.

5. It is understood and agreed that the affected contracts are physically complete. It is also understood and agreed that the amount of redeterminable indirect costs associated with any one of the affected contracts is less than $1,000,000.00 <u>and</u> the total amount of determinable indirect costs to be allocated to the affected contracts in 1992 is less than 15% of the total redeterminable indirect in that year.

6. Notwithstanding the provisions of paragraph 3, 4 and 5 above, this agreement shall not change any *monetary ceiling, contract obligation or specific allowance or disallowance established by the terms and conditions of the affected contracts.*

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representative.

DEFENSE CONTRACT MANAGEMENT *[OFFICE NAME]* *DEPARTMENT OF DEFENSE*	*XYZ COMPANY*
BY: ___________________________	*BY:* ________________________
TITLE: _________________________	*TITLE:* ______________________
DATE: _________________________	*DATE:* _______________________

Important: If Quick Closeout rates are established based on the DCMA Deviation, paragraph 5 of the agreement will need to be revised.

Submission of Final Vouchers for Quick Closeout:

As stated in the Advance Agreement, the contractor will have 30 days after execution of the advance agreement to submit a final voucher on the affected contracts. The final voucher should be provided to DCAA for final audit. The Defense Contract Audit Manual (DCAAM) paragraph 10.903 "Quick Closeout Procedure Reports" indicates that:

"The auditor should issue a contract audit closing statement when (I) a contractor requests final payment on a contract meeting the criteria for quick closeout under FAR 42.708 (also see6-1010) and (ii) the contracting officer requests DCAA's advice regarding the final payment and use of quick closeout procedures. When preparing the closing statement in this situation, the report will clearly indicate what costs and fiscal periods have been audited and which have not been audited. Suggested wording for the "Qualification" paragraph follows:

"This audit is in response to your request for assistance in closing out the contract using the administrative quick closeout procedures under FAR 42.708. The costs of $___________ claimed on the subject contract represent costs recorded for the contract during FYs ______. Of this amount, $__________ represents amounts incurred during FY _______. We have completed the annual audits of incurred costs for these years. The remaining claimed cost of $__________ were recorded during FY ____. The audit of [contractor's name] FY___

incurred costs is in process. We do not expect that the FY ____ audit results will find an exception to the claimed costs."

Once the final audit report is received, contract closeout may proceed as normal.

9. Early Closeout for Task Orders Issued Under Indefinite Delivery/Indefinite Quantity (IDIQ) Contracts

Background

Early closeout for T&M and LH type contracts offers a solution to problems resulting from delays in audit of indirect cost rates. The utilization of early closeout not only allows timely closeout of task orders but the procedure:

- Prevents the systematic cancellation of funds.
- Allows the ACO to identify/deobligate excess funds upon physical completion of task orders.

The process was initiated as a method for ACOs to close task orders prior to settlement of indirect cost rates. The practice is acceptable because the task orders are not considered to be individual contracts.

Candidates for Early Closeout

Candidates for early closeout procedures are those IDIQ contracts that contain FAR Clause 52.232-7. The clause provides the Government the right to withhold 5% of payments otherwise due, up to a maximum of $50,000. Withholds are directly linked to the contractor release which discharges the Government from all liabilities, obligations and claims. In addition, withholds are applied against the estimated amount of the *entire instrument* - not against individual task orders.

ACOs should consider the adequacy of contractor accounting and billing systems. Adequate systems indicate that minimal adjustments would be required for the final voucher. If a contractor has inadequacies in their accounting and billing system, the nature of the inadequacy should be considered.

Early Closeout Procedures

By establishing early closeout procedures at the on-set of the contract, the ACO will be better able to monitor the process in accordance with FAR Clause 52.232-7.

Good Idea!
While it is recommended that early closeout be established at the on-set of the contract, the procedure may be implemented:

- *During Contract Performance, or*
- *After Physical Completion of Task Orders*

The following is offered as a guide in establishing early closeout:

- During initial contract review, the ACO should determine if early closeout procedures are applicable. (Does the contract contain FAR Clause 52.232-7?)
- Communicate with the PCO - The ACO should issue a letter to the PCO recommending that Early Closeout procedures be utilized.
- Communicate with the Contractor - After PCO concurrence is received, the ACO should notify the contractor that Early Closeout will be utilized. The letter should include detailed procedures.
- Communicate with DCAA - The ACO should notify DCAA that Early Closeout procedures will be utilized.

Detailed early closeout procedures are as follows:

1. Upon final acceptance by an authorized representative of the Government, the contractor will prepare a completion voucher for each task order. Each completion voucher will include:
   a. Certification signed by the COR reading substantially as follows: *"I certify that the requirements of this task order have been satisfactorily completed and that final acceptance has been made."*
   b. Total unaudited allowable costs.

Reminder:
- ***The contractor is not required to submit a release or other closing documentation with the completion voucher on individual orders. However it is still required on the final order.***
- ***It is important to keep track of all disbursements made per order.***

2. The contractor will then forward the certified completion voucher to the ACO for provisional approval.

3. ACO review/approval -
   a. Verify that all contractual requirements have been satisfied,

   b. Sign the completion voucher approving for payment, and
   c. Forward it to the payment office for processing.

4. The ACO should hold open enough delivery orders to satisfy the 5% or $50,000 withhold requirement. To the greatest extent possible, the orders that are held open should include costs for each fiscal year of contract performance. The orders should remain open until settlement of indirect cost rates for the applicable period of performance.

5. After settlement of the indirect cost rates, the contractor will prepare a “final” voucher to be submitted to DCAA along with *one* Assignment of Refunds, Rebates and Credits, *one* Claim Release, and a recapitulation of costs for each order issued under the contract. The auditor will provide only *one* Contract Audit Closing Statement for the entire contract, which will include a review of the allowable and allocable costs for each delivery order.

6. The ACO will process the "final" voucher through normal closeout procedures.

7. If more than one order has been held open to meet the required 5% or $50,000 withhold amount, the ACO should review the final voucher and contract audit closing statement (CACS).
   a. Verify that the contractor has complied with the contract terms and conditions.
   b. Verify that the contractual limitations have not been exceeded.
   c. Review level of effort and make any necessary adjustments.
   d. Verify the net billable amount.

8. After reviewing the final voucher, the ACO should:
   a. Make one copy of the final voucher for each delivery order held open.
   b. Decide which order will be used to pay/recoup the billable amount.
   c. Provide written notice to the contractor concerning how the billable amount will be processed.

9. If the contractor will not submit revised vouchers reflecting the new billable amounts, the ACO should:
    a. Prepare SF1034(s) to pay/recoup the billable amount.
    b. Prepare SF1034(s) for a $0.00 amount for remaining open orders.
    c. Sign the final voucher and forward to the payment office for processing.

Establishing Early Closeout - After the Fact

If the ACO is establishing Early Closeout after the fact, the following procedures are recommended:

1. Identify the contracts that are candidates for early closeout. The ACO should coordinate with DCAA and the contractor when identifying potential closeout candidates.

2. Identify which task orders should be closed and which ones should be held open to maintain the required withholding. Considerations when identifying orders should include:
    a. Unliquidated Balances
    b. Canceling Funds
    c. Period of Performance

3. Prepare letters to the PCO, DCAA and the contractor outlining the early closeout procedure and identifying which orders will be held open.

4. Request that the contractor prepare completion vouchers for each order ready to be closed. An order is ready for closure after the Government has made final acceptance.

5. The ACO should complete the closeout as stated above under the paragraph titled "Early Closeout Procedures".

> *Good Idea! When it is not practical or cost effective for the contractor to submit a completion voucher, a bilateral modification may be executed to administratively close the orders. The modification would not include those orders held open for withholding purposes.*

Maintaining Early Closeout Records

The key to successful execution of early closeout is maintaining information on the orders that were closed by completion vouchers.

Upon physical completion of the last order and settlement of indirect cost rates, the contractor will prepare a final voucher showing a recapitulation of all task order issued.

As part of the review of the final voucher, the ACO should verify billings, payments and in some cases, hours of all delivery order closed under the early closeout process. Therefore, it would be a good idea for the ACO to maintain information regarding:

- Order Number
- Obligated Amount
- Billed Amount Through Completion Voucher/Modification
- Excess Funds

If the Contract is Level of Effort (LOE), the ACO should also maintain information regarding:

- Order Fee Ceiling Amount
- Level of Effort Required
- Actual Level of Effort Expended
- Fee Billed Through Completion Voucher/Modification

Early Closeout for Cost Plus Fixed Fee Type Task Orders Issued Under an IDIQ

The use of early closeout for cost plus fixed fee type orders issued under an IDIQ contract is considered to be an acceptable practice because the task orders are not considered as individual contracts. In addition, the clauses governing the closeout process do not prohibit the use of this procedure.

When reviewing/implementing early closeout, the ACO should follow the procedures as stated under previous paragraphs titled *Early Closeout Procedures* and *Establishing Early Closeout - After the Fact*.

FAR Clause 52.216-8, Fixed Fee, states that ". . . the Contracting Officer *may* withhold further payment of fee until a reserve is set aside . . ." and "This reserve shall not exceed 15 percent of the total fixed fee or $100,000, whichever is less."

If the ACO decides to withhold fee, a sufficient number of orders should be held open to maintain the 15% or $100,000 withhold. This should satisfy the requirements of the FAR clause.

10. Solutions for Problem Closures

Background:

This chapter addresses those "problem closures" that exist in every Contract Management Office. A "problem closure" is considered to be a contract that has unusual circumstances barring the use of traditional closeout methods.

IMPORTANT! While this guidebook offers possible closeout solutions, ACOs are encouraged to tailor each of the procedures to fit their individual situation.

Examples of circumstances and possible solutions follow.

Unusual Circumstance	Possible Solution
1. Contractor is No Longer in Business	Administrative Unilateral Closeout
2. Contractor is Bankrupt	Coordinate with Office of General Counsel
3. Contractor Has Failed to Submit Indirect Cost Data	• Notify Contractor of Internal Control Deficiency • Decrement Current Billing Rates • Unilateral Determination of Indirect Cost Rates • Unilateral Determination of Final Rates/Prices
4. Contractor is Unable to Submit Supporting Indirect Cost Data	Administrative Unilateral Closeout
5. Contractor Has Failed to Submit Final Invoice/Voucher	Fixed Price Contracts – • Administrative Unilateral Closeout Cost Reimbursable Contracts – • Unilateral Determination of Final Price • Accelerated Final Voucher Preparation/Review
5. Unreconcilable Contracts	Negotiated Settlement

Traditional closeout procedures are, for the most part, dictated by the payment clauses contained in affected contracts. When the circumstances mentioned above exist, it is sometimes virtually impossible to close contracts using traditional methods. In these instances, the ACO must perform a cost risk analysis and exercise business judgment in accordance with FAR 1.602-2 to ensure that the Government’s interests are protected and administrative actions are reasonable. With the goal of minimizing loss to the Government, exercising and implementing efficient business practices and processes, the following guidelines are offered as a solution to these "problem closures".

1. Contractor No Longer in Business:

Unfortunately, it is not uncommon to have open contracts for companies that are no longer conducting business. In these instances, the Government must take every reasonable measure to locate the company and/or its principals. It is suggested that the ACO:

- Attempt to contact company/company officials *by telephone* (using “directory assistance” to verify that the company hasn’t simply relocated).
- Attempt to locate company *in writing*, via certified mail, return receipt requested.
- Contact/inquire about company’s status from other Government officials (PCO, COR, QAS, IS, PA, SBA, DCAA).
- Visit or request plant visit by the CMO designee (IS, QAR)
- Contact the Bankruptcy Court of the state in which the company is located to determine if company has filed for bankruptcy.

The contract file should be documented with every attempt made to locate the company and its officials. If all of the above attempts prove unsuccessful, it is recommended that the ACO begin the Administrative Unilateral Closeout process.

Possible Solution:

Administrative Unilateral Closeout begins with a thorough review of the official contract file(s). The following should be ascertained during that review:

- Is the contract physically complete and has Government acceptance of goods/services been received?
- Was the contractor previously paid any funds?
- What is the status of indirect cost rate settlement (if contract is other than firm fixed price)?
- Have all reasonable measures been taken to locate the company and documented in the contract file?
- Has the contract been terminated for convenience or default?
- Any other pertinent information relative to the contractor or performance of the contract (e.g., unsettled subcontract cost, litigation, etc.) should be considered. It is recommended that the ACO check with Office of General Counsel to ascertain if any actions are pending.

After completing your review, you should notify the PCO of your intent to perform Administrative Unilateral Closeout.

It is recommended that you obtain PCO concurrence prior to issuing an Administrative Unilateral Closeout modification.

The final contract price should be established at the amount previously paid to the contractor and any excess funds deobligated at the ACRN level.

2. Contractor in Bankruptcy: In accordance with FAR 42.9, when notified of bankruptcy proceedings, agencies must, as a minimum --

(1) Furnish the notice of bankruptcy to Office of General Counsel and other appropriate agency offices (e.g., contracting, financial, property) and affected buying activities;

(2) Determine the amount of the Government's potential claim against the contractor (in assessing this impact, identify and review any contracts that have not been closed out, including those physically completed or terminated);

(3) Take actions necessary to protect the Government's financial interests and safeguard Government property; and

(4) Furnish pertinent contract information to the Office of General Counsel representing the Government.

Possible Solution: If you discover that the contractor is bankrupt, you must contact Office of General Counsel to ascertain if a “proof of claim” is eminent. A thorough review of the contract and the status of bankruptcy are required. Closeout procedures should be coordinated with Office of General Counsel.

3. Contractor Has Failed to Submit Indirect Cost Data: In accordance with FAR 52.216-7 and 52.216-13, the contractor is required to submit a final indirect cost proposal to the Government within 180 days of the close of their fiscal year. Regardless of whether rates are ACO or Audit determined, the ACO should work with DCAA to obtain overdue proposals.

Possible Solution: It is recommended that the ACO issue a letter to the contractor ninety days before the end of a contractor's fiscal year, requesting submission of the indirect cost proposal. If the contractor does not submit their proposal in a timely manner, measures must be taken to protect the Government's financial interest. The ACO should issue a letter expressing concern over non-receipt of the proposal. The letter should include a reminder that failure to submit a proposal is considered to be an internal control deficiency and request a response within 30 days.

If a contractor remains non-responsive, the ACO should schedule a meeting with the contractor. During the meeting, the contractor should be presented with a letter informing them that continued non-responsiveness will result in a billing rate decrement.

More than likely, a contractor will respond to a billing rate decrement. However, continued non-receipt of incurred cost data dictates an aggressive approach by the ACO. Contracts are physically complete and the closeout time clock is ticking. Based on these factors, the ACO should proceed with unilateral determination of indirect cost rates (FAR 42.703-2(c)) and/or unilateral determination of final contract price. *(see Contractor Failure to Submit Final Vouchers)*

4. Contractor is Unable to Submit Supporting Indirect Cost Data for Submission of Final Vouchers:

On rare occasions, contractors are unable to provide final vouchers because they have not retained their financial records for a fiscal year. When this happens, the contractor does not have the ability to support an audit or the incurred cost previously billed on contracts.

Possible Solution:

In these instances, Administrative Unilateral Closeout is recommended. As with all Administrative Unilateral Closeout efforts, a thorough review of the contract file is essential. You may want to do a risk assessment to ensure the financial security of the contractor. Upon completion of your review, you should have an understanding as to why the contractor is unable to provide the final voucher. If Administrative Unilateral Closeout is still deemed suitable under the circumstances, it is recommended that the ACO proceed with the closeout as follows:

- Contact the cognizant DCAA office and obtain an opinion as to the Administrative Unilateral Closeout of the contract.
- Upon receipt of DCAA recommendation, the ACO should send a notice to the PCO.
- PCO concurrence is recommended prior to issuance of contract modification. However, if after 30 days the PCO

has not responded, the ACO should proceed with the closeout.

- Calculate the final price based on previous amounts paid to date.
- Issue a modification establishing the final price at the amount previously paid to date and deobligate any excess funds at the ACRN level.

5. Contractor Fails to Submit Final Voucher or Invoice:

Different circumstances and solutions are described below.

a. Firm Fixed Price: Contractor Fails to Submit Final Invoice:

On occasion, contractors complete performance but fail to submit a final invoice on firm- fixed price contracts. After making a reasonable number of requests to the contractor, the following actions should be taken.

Possible Solution

- Verify that all shipments/performance have been accepted by the government.
- Send the contractor a letter asking if paid complete or when they will submit final invoice.
- If contractor fails to respond by suspense date in first letter, send a certified letter; return receipt requested, to the contractor advising them of the intent to administratively close the contract.
- If the contractor responds that an amount is owed, but will not final invoice or fails to respond by the suspense date in the certified letter, the contract should be closed via Final Pay NLA with remaining funds noted on the ACO Notebook field, R5 or R6 line.

b. Cost Reimbursable: Contractor Fails to Submit Final Voucher:

The ACO has the responsibility of obtaining final vouchers and closing documents in accordance with FAR regulations. The contractor is contractually required to submit final vouchers or invoices within 120 days after settlement of final indirect cost rates. As soon as rates are settled and the contractor has signed an indirect cost rate agreement, the ACO should request that final vouchers be submitted in accordance with FAR 52.216-7(d)(4).

In situations where indirect cost rates have been settled and the contractor has failed to adhere to FAR 52.216-7(d)(4), it is recommended that the ACO research and determine the reason for non-submission. Many times the contractor may not be able to submit final vouchers because:

- They are awaiting final subcontractor costs
- There is a lack of accounting staff to prepare final vouchers
- There is a lack of sufficient financial records needed to prepare cumulative cost (CUM) sheets and ultimately the final vouchers
- The final voucher would result in a credit balance due to the Government
- The final voucher would equal $0.00

After the ACO determines the reason for non-submission of final vouchers, several alternate methods exist that will enable the contracts to be closed. They include:

- Unilateral Determination of Final Contract Price
- Accelerated Final Voucher Preparation and Review Process

Possible Solution: Unilateral Determination of Final Contract Price

The ACO should pursue a unilateral determination of final contract price when the contractor is non-responsive or has not provided a reasonable explanation for not submitting a final voucher. After issuance of the initial request for submission of final vouchers and the expiration of the 120-day suspense, the ACO should:

a. Determine the total allowable cost in accordance with DCAA Audit of Indirect Cost Rates.
b. Determine the total previous payments made to the contractor according to MOCAS and DCMA official contract records.
c. Issue a letter to the contractor, which will serve as a notice of intent to unilaterally determine the final contract prices if the final vouchers are not received within 30 days from date of the notice.
d. Calculate the final contract price -
   (1) If it is determined that the contractor has been underpaid, state the amount due in the unilateral determination modification.
   (2) If overpayment has occurred, request a refund from the contractor. If the contractor refuses to provide the refund within 30 days from the date of the request, forward the debt to DFAS Columbus, via DLA1797, for collection action.
   (3) If it is determined that excess funds remain on the contract, accomplish deobligation within the

unilateral determination modification.

e. Notify the Buying Activity that DCMA intends to issue a unilateral determination modification accomplishing Administrative Unilateral Closeout.
f. Issue a unilateral determination modification.
g. Notify PCO that all actions are complete by using a DD Form 1594 or a MILSCAP Format Identifier PK9.
h. Monitor movement of contract through MOCAS to ensure closeout. The ACO should:
   (1) Verify that the modification has been processed in MOCAS.
   (2) Verify that the unliquidated balance equals $0.00 at the ACRN level.
   (3) Verify that the contractor was paid complete.
   (4) Verify any refund checks received have been posted in MOCAS and excess funds deobligated.
   (5) Forward any delinquent refund request to DFAS Columbus, via DD1797, requesting collection action.

Possible Solution: Accelerated Final Voucher Preparation and Review Process

There are times when a contractor may be able to prepare the final voucher but it will take an unreasonable amount of effort and expenditure of resources to pull the cumulative cost sheets together. As a result, final voucher submission will be delayed and often cause the contract to become overage for closeout.

The ACO may want to consider an accelerated final voucher preparation and review process in order to close the contracts in a timely manner. The procedure is applied on a fiscal year basis and may include all contracts or a partial list of contracts. Basically three team players will need to concur in each case - the ACO, the Auditor and the Contractor.

There are three steps recommended for this process:

1. The ACO and the Contractor agree on the final contract amount.
2. DCAA agrees to perform a risk analysis and cumulative cost *sampling* for the contracts.
3. The Contractor agrees to submit a non-detailed final voucher for each contract.

- ACO Actions

<u>ACO Actions</u>:

1. Perform Initial Risk Analysis - As with each of the alternate closeout methods, the ACO will need to

perform an initial risk analysis and decide if this procedure is appropriate for a particular contractor. Factors that should be considered include:

- Status of Contractor Accounting and Billing Systems
- Variances Between Proposed and Settled Rates for Previous Fiscal Years
- Total Amounts Remaining to Be Disbursed (ULO Balance)

2. Decide Whether to Use the Procedure - After the ACO has decided to pursue the accelerated procedure, the following steps should be taken:

3. Prepare a List of Candidates - A list of contract candidates should be prepared and all necessary parties notified. The list should include only those contracts for the specific fiscal year(s) for which the procedure is being used. In addition to the contract numbers, the ACO should also include contract type, final acceptance date, total disbursed amount, obligated amount, ULO balance. This list will serve as the ACO's initial worksheet.

4. Determine if you have agreement with DCAA and the Contractor – Then, the ACO should schedule a meeting with the contractor and DCAA to discuss the use of an accelerated final voucher preparation and review process. The list of proposed contracts should be provided to all parties at the meeting or distributed via e-mail.

IMPORTANT!!! It is necessary that all parties agree that the process is a practical solution for expediting closeout and will result in little or no risk to the Government.

5. Request the Contractor Review Accounts Receivable Records - The ACO should request the contractor review the list of contracts and determine the amounts that remain on their accounts receivable records for each contract.

- Contractor Actions

Contractor Actions:

1. Review List of Candidates.
2. Weed out "high-risk" contract candidates.

3. Meet with ACO -
    - Provide final billable amount (credit or payment), by contract.
    - Confirm and agree to final candidates and contract prices.

4. Discuss finalized list of contracts and final prices with DCAA.

DCAA Actions:
If DCAA has agreed to assist in this process, request they perform a risk analysis for the entire procedure. The following factors should be considered:

- Contract Type
- Accounts Receivable Definition and Content
- Past Indirect Rate Settlement - Billing Rates versus Settled Rates
- Billing System Status
- CUM Sampling of Contracts

Request that the risk analysis includes the CUM sampling results and assist the ACO in exercising the proper business judgment when finalizing the process.

- Final Actions

Final Actions:

1. ACO will review the risk analysis and resolve any outstanding issues -
    - Adjust final contract amounts as necessary
    - Remove questionable candidates from list and instruct contractor to provide a final voucher through the traditional method.

2. ACO will document the official contract file. The document should:
    - State the purpose of the procedure
    - State the benefits
    - Identify the affected contracts and final prices

3. Contractor should submit a non-detailed final voucher for each contract directly to the ACO.

4. The ACO should proceed with the review and approval process for each final voucher

6. ***Unreconcilable Contracts***

There may be instances where the Government and the Contractor agree that contract performance is complete and all items have been shipped and accepted, however the contractor may not have been final paid and the contract has been determined to be "unreconcilable".

A contract is also considered to be "unreconcilable" when adequate documentation required to support full contract disbursement reconciliation by DFAS <u>cannot</u> be obtained. Also a determination of "unreconcilable" may be made when the normal reconciliation process would result in unreasonable effort and expenditure of resources, or the cycle time to close the contract under traditional closeout method would be unreasonably long.

Many factors may contribute to the reasons for not having adequate documentation that would be necessary for a full reconciliation. Included, but not limited to, are:

- Multiple payment offices during the life of the contract
- Contract mergers or reorganizations
- Loss of key players - Government and Contractor
- Old contracts with many modifications

The ACO should review the obligated and unobligated balances at both the total contract level and at the ACRN level to determine if the contract is "unreconcilable".

- When a positive or zero ULO balance exists at the total contract level and a *negative balance exists at the ACRN level*, the ACO should request that DFAS perform disbursement adjustments. If it is determined that adequate documentation <u>does not</u> exist to support the reconciliation, the contract may be considered as "unreconcilable"
- When a negative ULO balance exists at the total contract level, the ACO will prepare an obligation audit and send a DLA 1797 request that DFAS perform a disbursement reconciliation and make the necessary adjustments. If it is determined that adequate documentation <u>does not</u> exist to support the reconciliation, the contract may be considered as "unreconcilable"
- When a positive ULO balance exists at the total contract level and at the ACRN level, and the ACO has determined that the disbursement history is distorted or that sufficient obligation documentation does not exist

to support the reconciliation, the contract may be considered as "unreconcilable".

Possible Solution: Negotiated Settlement

The solution for closing these types of contracts may be a negotiated settlement.

Negotiated settlement -

- Supports an orderly and economical process for closing contracts with little or no additional financial risk to the Government.
- Is concerned about ensuring the Government is made whole at the *total contract level* although full contract reconciliation has not been accomplished at the ACRN level and there is uncertainty about the amount owed to the Government or the Contractor.
- Is a process of negotiating a settlement between the parties to the contract. The ACO should first coordinate the need for a negotiated settlement and the records to be used for the government position with all concerned parties - PCO, Fund Manager, DFAS, DCAA and any other party responsible for closing the official accounting records.
- Allows administrative closure based on the best available data when the contract has been determined to be a negotiated settlement candidate.

Identifying Negotiated Settlement Candidates

As with each of the alternate closeout methods, the ACO will need to perform an initial risk analysis and decide if this procedure is appropriate for a particular contractor. During the risk analysis, it should be determined that:

- The contract is unreconcilable
- The normal reconciliation process would result in unreasonable effort and expenditure of resources, or
- The cycle time to close the contract under traditional closeout methods would be unreasonably long

Negotiated Settlement Process

The negotiated settlement process is applicable to those contracts that are determined to be complete, shipped and accepted.

While individual services are responsible for issuing detailed procedures, as they deem necessary in order for their representatives to accomplish the objectives of the process outline below, all actions should be documented in the official contract file.

- ACO Actions

1. ACOs should identify all contracts that are likely candidates for negotiated settlement from the pool of unreconciliable contracts where the initial Administrative Closeout procedures are complete except for the contract funds status review and the ACO requires status of final payment be resolved before closure can happen. This list of contracts will become part of the pool of contracts to prioritize the workload for accomplishing negotiated settlement in the time frames identified below. ACOs should maintain documentation that identifies the contract is in the negotiated settlement process and keep a chronology of events as it moves through the process outlined below.

2. As new contracts are identified as candidates for negotiated settlements, they will be added to the ACOs documentation to show the date the ACO began the negotiated settlement process.

   The ACO documentation should include the following information:

   - Contract Number
   - Contractor Name
   - DCMA Contract Management Office (CMO)
   - ACO name, telephone number, and email address
   - PCO name, telephone number, and email address
   - The reason the contract is being recommended for negotiated settlement
   - Date of ACO and PCO agreement to use negotiated settlement
   - Date of final closure

3. The ACO should contact the PCO and obtain agreement on the best reconciliation path for the PCO to use for correcting the out of balance condition after administrative closeout. At this point the ACO and PCO should:

   a. Agree that the amount owed (either the contractor or the government) is in question.
   b. Make a decision to use negotiated settlement with the contractor and the PCO should coordinate their decision with their accounting station personnel.
   c. Identify who will be the Responsible Contract Reconciliation Agent (RCRA).
   d. Register the contract in the Standardized Contract Reconciliation Tool (SCRT) and identify that the

negotiated settlement process is being used. This will ensure that another party will not start additional reconciliation efforts.

4. The ACO and PCO should conduct a meeting or conference with the responsible/affected government parties to include the PCOs, fund manager(s), DFAS accounting station personnel, disbursing office personnel, DCAA and any other party that will be party to negotiating a settlement or responsible for closing the official accounting records for the PCO.

   a. This initial meeting should take place within 30 days from the time the contract is added to the negotiated settlement schedule in step 3d above.
   b. The parties will develop a plan of action to ensure the process described below works efficiently.
   c. The ACO will assess available government data and establish an initial government negotiating position for administrative closeout.
   d. As required, the ACO will initiate a DCAA or other audit to assist in establishing a final negotiating position based on the best available records, including contractor records.
   e. Funds holders, accounting station personnel, disbursing office personnel, etc. will begin (or plan for) expedited procedures for closing the official accounting records.

5. The ACO should negotiate a settlement with the contractor no later than 60 days after the government meeting in step 4 above. The government team in step 4 above will determine the parties needed to support the ACO in negotiations.

6. The ACO should issue a bilateral modification or letter of determination (depending on the type of contract), as agreed to by the parties in step 4 above, within 30 days of the negotiated agreement. The final document should cite any payment amount due the contractor and should administratively remove any excess funds identified during the process.

   The ACO will distribute a copy of the modification or determination of agreement to all parties.

7. The responsible funding, accounting, and disbursement station personnel should initiate expedited procedures to

close all official funding and accounting records within 30 days of the receipt of the DD Form 1593 or PK9 signifying administrative closeout.

- Funding/Accounting Actions after Administrative Closure