
Contract & Subcontract Closeout



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Contract Closeout Agenda

- What is “Contract Closeout”?
- The Government Team Members
- The Contractor Team Members
- Planning and Preparing for Closeout
- Invoices, Audits and Payment
- Alternate Closeout Methods
- Your Questions



The Seminar Presenters

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WHAT IS CONTRACT CLOSEOUT?

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FAR 4.804-1 -- Closeout by the Office Administering the Contract.

(a) Except as provided in paragraph (c) below, time standards for closing out contract files are as follows:

(1) Files for **contracts using simplified acquisition procedures** should be **considered closed** when the contracting officer receives evidence of receipt of property and **final payment**, unless otherwise specified by agency regulations.

(2) Files for **firm-fixed-price contracts**, other than those using simplified acquisition procedures, **should be closed within 6 months after** the date on which the contracting officer receives evidence of **physical completion**.

(3) Files for **contracts requiring settlement of indirect cost rates** **should be closed within 36 months of** the month in which the contracting officer receives evidence of **physical completion**.



FAR 4.804-1 continued

(4) Files for **all other contracts should be closed within 20 months of** the month in which the contracting officer receives evidence of **physical completion**.

(b) **When closing out the contract files** at 4.804-1(a)(2), (3), and (4), the contracting officer shall **use the closeout procedures at 4.804-5**. However, these closeout actions may be modified to reflect the extent of administration that has been performed. **Quick closeout procedures (see 42.708) should be used, when appropriate**, to reduce administrative costs and to enable deobligation of excess funds.

(c) A contract file shall not be closed if --

- (1) The contract is in litigation or under appeal; or
- (2) In the case of a termination, all termination actions have not been completed.



4.804-5 -- Procedures for Closing Out Contract Files.

(a) The contract administration office is responsible for initiating (automated or manual) administrative closeout of the contract after receiving evidence of its physical completion. At the outset of this process, the contract administration office must review the contract funds status and notify the contracting office of any excess funds the contract administration office might deobligate....



A “Physically Complete” Contract

- All deliveries complete
 - All goods delivered and accepted
 - All services performed and accepted
 - DD250(s), if required, executed for goods and data
- All direct labor and material costs have been incurred
- All excess material disposed of



What is the Closeout Process?

- Process to finish or resolve all contractual requirements for a physically complete contract
 - Review contracting actions and files
 - Perform audits and reviews
 - Make final payment
 - Dispose of data and contract files

The objective is to establish the final price and make the final payment



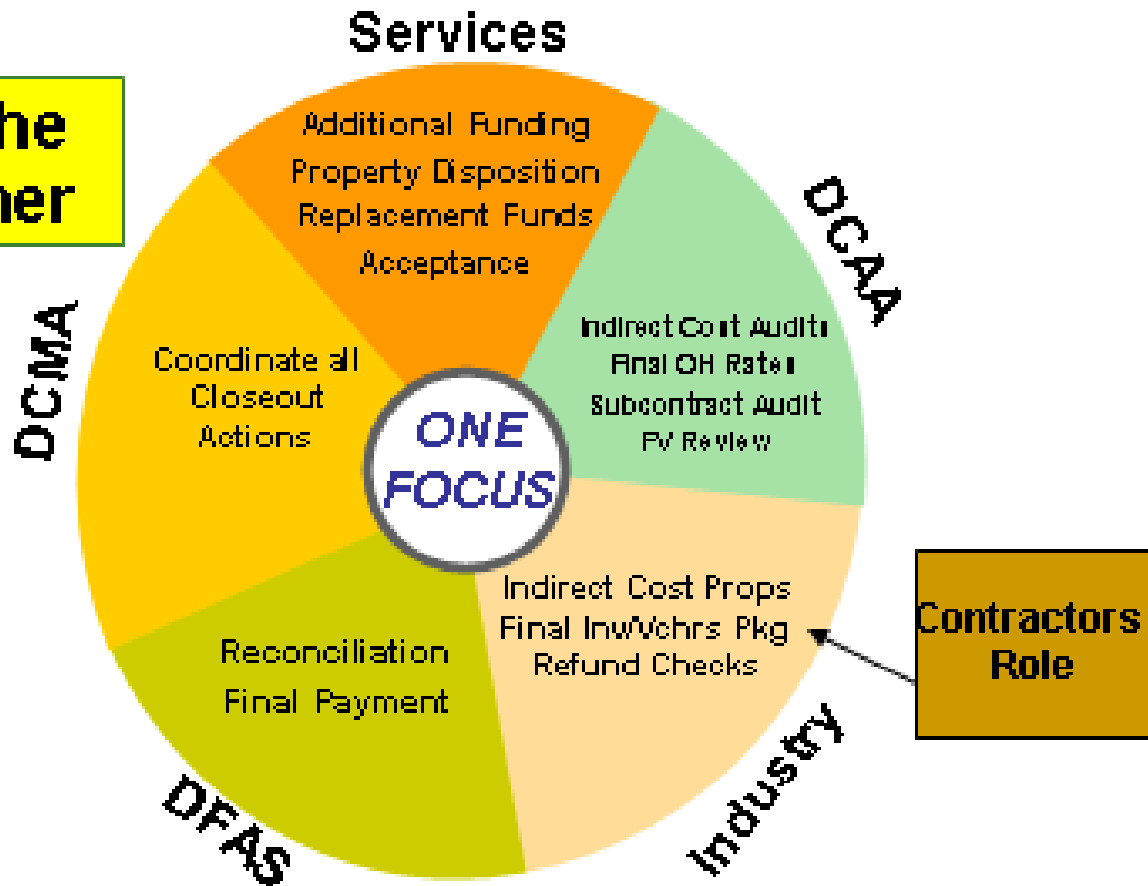
Closeout Options

- Standard closeout
 - Fixed price contracts (*e.g.*, FFP)
 - Flexibly priced contracts (*e.g.*, CPFF)
- Quick closeout (flexibly priced)
 - Prior to settling final indirect rates
 - Must be low risk
- Early closeout
 - Completed DOs or TOs
 - Must be low risk



The Contract Closeout Players

Achieving the Goal Together



The Government's Team

- ACO [DCMA, SUPSHIP, SWRMC]
- PCO
- CAO Team
 - Property Administrator
 - Plant Clearance Officer
 - Industrial Specialist
 - QAR
 - Legal Counsel
- Government Program [or Project] Team
- DCAA



The Contractor's Team

- Contract Administrator
- Program [or Project] Office
- Materials
 - Purchasing
 - Warehousing
- Finance
- Engineering
- Legal counsel



THE GOVERNMENT TEAM MEMBERS

Kenneth Adam



Closeout Tasks to be Completed

■ Confirm Contractor has:

- ❑ Disposed of classified material
- ❑ Submitted final patent report (DD882)
- ❑ Submitted final royalty report
- ❑ Submitted plant clearance report (DD1593)
- ❑ Submitted property clearance report (DD1593)
- ❑ Settled subcontracts, including audits of flexibly priced orders
- ❑ Settled rates for all FYs in POP
- ❑ Submitted the final ICP
- ❑ Submitted the final invoice (SF1034)
- ❑ Completed any other contract-required closeout task



Closeout Tasks (Cont.)

- **Verify Government has:**
 - ❑ Disposed of classified material
 - ❑ Cleared final patent & royalty reports
 - ❑ No outstanding VECs
 - ❑ Settled all interim or disallowed costs
 - ❑ Completed price revision (if necessary)
 - ❑ Completed termination docket (if any portion of contract terminated) (DD1593)
 - ❑ Completed contract audit and settled all interim or disallowed costs (DCAA Form 1)
 - ❑ Reviewed contract funds and deobligated excess
 - ❑ Issued Contract Completion Statement (DD1594)



The Contracting Officers

- FAR 42.302 identifies CAO responsibilities; including:
 - Cost & billing rates [see 42.302(a)(9)]
 - Administering GFM [see 42.302(a)(26)–(30)]
 - Assist with resolving funding or line of accounting issues [see 42.302(a)(6)–(9), (15), (17), (59), (69) & (70)]
 - Administrative closeout [see 42.302(a)(65)]



The Contracting Officers (cont.)

- FAR 42.302(b) identifies added responsibilities PCO may delegate to CAO; including:
 - Interim billing rates [see 42.302(b)(6)]
 - Administering GFM [see 42.302(a)(26)–(30)]
 - Deobligate excess funds [see 42.302(b)(4) & (9)]
- Tasks not delegated remain PCO responsibility



ACO Responsibilities

- Select appropriate closeout method
- Verify all required certifications received and properly executed
- Verify available funds and final invoice amount
- Execute close-out administrative modification
- Send records for retention



Forms Used by ACO

- DD 1597 — provides POA&M for closeout activities helpful Contract Closeout Checklist
- DD 1593 — used to manage CAO closeout functions
- DD 1594 — ACO & PCO document all activities complete and contract closed



Legal Counsel Responsibilities

- Patent reports
- Handles legal issues such as patents, copyrights, licenses, royalty payments and warranties



The Government Project Team

- Program Manager, COR or COTR:
 - Verifies all goods and services delivered
 - All requirements met
 - All inspections complete (unless delegated to QAR)
 - Ensures adequate program funding
- Writes final CPAR



DCAA Responsibilities

- Audit closing and final vouchers
- Provide input on proposed quick closeout rates
- Audit annual incurred cost submissions to establish final indirect cost rates



What Else Might DCAA Audit?

- Interdivisional and subcontractor costs
- Cumulative cost, by year, to final indirect rates
- Billed direct costs compared with costs accepted in assist audits of subcontractors
- Review that cost-sharing includes only the Government percentage of allowable costs
- Incurred labor hours, by category, for LOE CLINs:
 - Compare incurred hours to contract limitations
 - Verify fixed hourly rates



What Else Might DCAA Do?

- Verify incurred labor hours by category for LOE clauses, compare incurred hours to contract limitations and fixed hourly rates
- Determine amount of fee is in accordance with contract terms [see FAR 42.705-2]
- Determine total cost and fee do not exceed allowable amounts



Payment Office Responsibilities

■ CAO

- Reconcile contract payments
- Assist with final DCAA invoice audit
- Ensure funds are available for payment
- Release excess funds

■ DFAS

- Pay final invoice upon approval



Records Retention—Government

- DFARS 204.805 requires:
 - 12 months after completion, send records sent to local records holding or staging are until eligible for destruction
 - 6 years after final payment, destroy:
 - Pricing review files
 - Documents related to review of contractor's price proposals, subject to certification of cost or pricing data (see FAR 15.406-2)



Why Does It Take the Government So Long?

- Complete audits to determine business unit & home office indirect rates for each year of POP
- Find the records
 - Organization changes and relocations
 - Personnel turnover
- Reconcile obligated funds by lines of accounting
- Determine incentive fees
 - Award fees (e.g., CPAF) or performance profit
 - Incentive fees & cost share (e.g., FPIF)
- Verify all contract requirements met satisfactorily
- Closeout is very low priority in day-to-day operations
- Other good [and not-so-good] excuses



THE CONTRACTOR TEAM MEMBERS

Maurice Caskey



Contractor's Role

- The goal: close the contract at a profit
- Helpful actions for profit & cash flow:
 - Plan ahead
 - Track the money (costs & payments)
 - Comply with the contract Ts&Cs:
 - Invoked regulations (e.g., FAR & DFARS)
 - Special provisions, statement of work, etc.
 - Submit timely invoices; support audits



Readiness for Closeout

- ICP for final year in POP prepared and submitted [see FAR 52.216-7]
- Contract physically complete
- All direct costs incurred and paid reconciled
- Excess direct material disposed of
- Subcontracts, POs & MPAs closed
- Completion voucher prepared



Contract Admin. Responsibilities

- Develop a close-out plan that:
 - Includes all reports required by contract
 - Has a POA&M for completing tasks
- “Sound the alarm” if any POA&M tasks are missed throughout the POP
- Take charge of closeout activities when ready for closeout
- Submit required closeout documents
- Ensure Government activities on track



Potential Closeout Documents

- Certificate of No Liens
- Disposition of Classified Material, if identified by DD254
- Property certification, disposition of GFM (DD1593)
- Final invoice (DD1034)
- Contractor's release
- DD 250, if required for deliveries
- Final patent report, if IP rights involved (DD882)
- Assignee's Release, if applicable
- Assignment of Refunds, Rebates, Credits, and other Amounts



Program Office Responsibilities

- Verify the contract is physically complete
 - Ensure all guaranty work complete
 - Ensure all line departments' work complete and all labor & material costs are recorded
- Track CPARs:
 - Ensure entire POP covered by CPARs
 - Final CPAR entered into system



Materials Responsibilities

- Ensure subcontract Ts&Cs include all requirements for closeout
- Administer subcontracts, POs, MPAs
 - Ensure closeout-related tasks are complete
 - Execute closeout process when each order is physically complete
- Manage inventory throughout POP



Subcontract Management

- Closeout process starts at award of subcontract, PO or MPA
 - Requirements identified
 - Financial performance tracked
- Contractor must ensure physically complete including guaranty work
- All options have expired
- No pending subcontractor claims



Subcontract Closeout

- Mirrors prime contract closeout
 - ❑ Government property (GFM, supplier-acquired property)
 - ❑ Subcontractor IP rights (including DD882)
 - ❑ Disposition of classified material, based on DD254
 - ❑ Final voucher requirements
 - ❑ Release of claims
- Flexibly priced subcontracts must be closed in order to close the prime contract
 - ❑ ICP for final rates and audits
 - ❑ Final voucher



Subcontractor ICP Audit Request

- Based on data submitted in the performance of the subcontract and the invoked requirements of the FAR, it is requested that Prime personnel be authorized access to financial records and related data for the purpose of performing a subcontract closeout audit and reviewing the cost data associated with the performance of the subcontract. Specifically, this audit will address the areas of actual labor and material costs, labor hours and Rates, and indirect rates.
- The information requested herein will be used for purposes of determining final cost allocability and allowability for this subcontract and shall not be disclosed or used for any other purposes. Please so sign the appropriate line below and returning this letter, so endorsed, to the undersigned.

Prime is Authorized to conduct Audit

Prime is denied access to records for audit; request DCAA audit

Signature: _____ Date: _____



Inventory Management

- Control warehouse activities, material issue for all direct material
 - Control GFM
 - Security & appropriate use
 - Disposition after POP ends
 - Dispose of surplus direct material
 - FFP contract at contractor's discretion
 - Flexibly priced contract per Government Property Manager's direction
-



Finance Responsibilities

- Throughout the POP:
 - Prepare & submit partial, progress or advance invoices pursuant to contract terms
 - Maintain current ICPs & billing weights
 - Support DCAA audits
- Prepare completion & final invoices
- Retain records pursuant to FAR and corporate requirements



Engineering Responsibilities

- Maintain records of Government approval of design data throughout entire POP
- Determine records needed for retention:
 - Technical support for ECPs & VECs
 - Future product liability issues



Legal Counsel Responsibilities

- Prepare subcontract Ts&Cs
 - Meet company requirements
 - Include all required flow-down provisions
- Verify all certifications are made by authorized individuals
- Review patent and royalty reports
- Review contractor's release and close-out modification if other than "standard" language



Records Retention — Contractor

- Cost or pricing data records must be available throughout life of contract [see FAR 52.215-2]
- Records must be retained until 3 years after final payment [FAR 52.215-2(f)]
- Records retention is mandatory flow-down to subcontractors [FAR 52.215-2(g)]



Why Does It Take the Contractor So Long?

- Establish final indirect rates including home office allocation
- Find the records
 - Corporate mergers and acquisitions
 - Personnel turnover
- Dispose of Government property and plant clearance
- Reconcile payment problems & payment records
- Close out subcontracts
- Obtain back-up for required certifications
- Closeout is very low priority in day-to-day operations
- Other good [and not-so-good] excuses



PLANNING & PREPARING FOR CLOSEOUT

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Maurice Caskey



Why Plan Ahead?

- It is in both parties' best interests to close contracts and subcontracts as expeditiously as possible
 - Withholdings value decreases over time
 - Time value of money
 - Administrative costs increase over time
 - Maintaining books and records
 - Personnel turnover and loss of efficiency
- No benefit to delay closing



When Do You Start Planning?

- 90 days prior to last item delivery
- Upon delivery of last item
- 30 days after last item delivered
- 6 months after last item accepted
- Other _____



What Both Parties Can Do

- Ensure closeout requirements are:
 - Identified in the Government's RFP
 - Comprehended in contractor's proposal
- Become educated about closeouts
- Have organizational procedures for standard closeout process
- Have mutually supporting closeout plans



What is a Closeout Plan?

- Identifies all items required for closeout (e.g., certifications)
- Provides a timeline for closeout
 - Government actions
 - Contractor actions
- Identifies things to do during contract performance to facilitate closeout



Develop a Program Plan that Anticipates Closeout

- Post-award conference
 - Clearly define delivery responsibilities
 - Define Government completion and acceptance requirements under contract
- Ensure clear invoicing requirements
 - Data for each invoice
 - Consistent w/ CAS Disclosure Statement
 - WAWF and DFAS instructions



How Many Contractors

- Consider closeout integral to contract performance?
- Have a facility closeout plan?
- Document contract completion within 90 days of POP end date?
- Satisfy all administrative requirements within 90 days of POP end date?
- Include closeout criteria for supplier selection?
- Have metrics for contract & subcontract closeouts?



Government Actions to Avoid Delay

- Work the Contract from the start
 - Write clear contract invoicing requirements [see FAR 32.006 (a)]
 - Become familiar with finance terms and lines of accounting
- Ensure timely incurred cost audits
- Don't force CAS non-compliance



Contractor Actions to Avoid Delay

- Work the contract from the start
 - Become familiar with finance terms and tracking requirements
 - Set up system accounting tracking mechanisms
 - Consistently collect and track incurred costs [see CAS 401]
- What happens if PCO or ACO forces CAS non-compliance?



INVOICES, AUDITS AND PAYMENT

Diane M. Peluso



Payments Over Life of Contract

- Payment terms can be set forth in:
 - Invoked FAR clauses, §I or §G
 - Special contract requirements, §H
 - Contract attachments, listed in §J
- Retentions are deducted from billing price for progress or interim payments
- Withholdings are held after delivery of goods or services
- Withholdings released in final payment



Relationship: Closeout to Money

- Retentions and withholdings amount
 - 15% fee may be retained [see FAR 52.216-8 or FAR 52.232-7]
 - Other amounts may be retained based on contract terms
 - Other §B and §H requirements for retentions and withholdings
- All withholdings and fee are released for closeout



Fixed Fee in CPFF Contracts

- CPFF contract [see FAR 16.306]
 - Fixed fee negotiated at inception
 - Two basic forms:
 - Completion — Fee paid upon delivery
 - Term — Fee paid upon completion of specified LOE within period of term
 - U.S. Navy SeaPort-e contacts typically are term
- Total price (including fee) if:
 - Estimated cost spent, full LOE not provided
 - Full LOE provided, costs less than estimate



Sample Fee Calculation

<u>Problem:</u>	<u>Fee Award</u>	<u>Award</u>	<u>Actual Invoiced at completion</u>	<u>Corrected with fee adjustment</u>	<u>% of Original Hours performed = % of Fee earned</u>	<u>Overpayment of fee- Contractor to pay back at close-out</u>
		A	B	C	C/D	
Hours		147,677	129,251	129,251	87.52%	
Total Estimated Cost		\$17,509,313	\$15,704,371	\$15,704,371		
Fixed fee	7.00%	\$1,225,652	\$1,099,306	\$962,143	87.52%	\$137,163
Total Cost Plus Fixed Fee		\$18,734,965	\$16,803,677	\$16,666,514		

Contract has a fee percent of cost, based on performing the LOE per PoP.
 Interim invoices prepared on costs incurred, but hours were performed by higher priced employees.
 At CLOSEOUT - Final payment is based on hours expended.

Solution, track hours carefully / fee dollar per hour incurred.
 Request realignment from ODC to Labor



The Financial Message

- Administratively, a contract is not complete and ready for closeout until the contractor complies with the terms of the contract **INCLUDING** the financial aspects
- Contract work physical completion does not equal closed



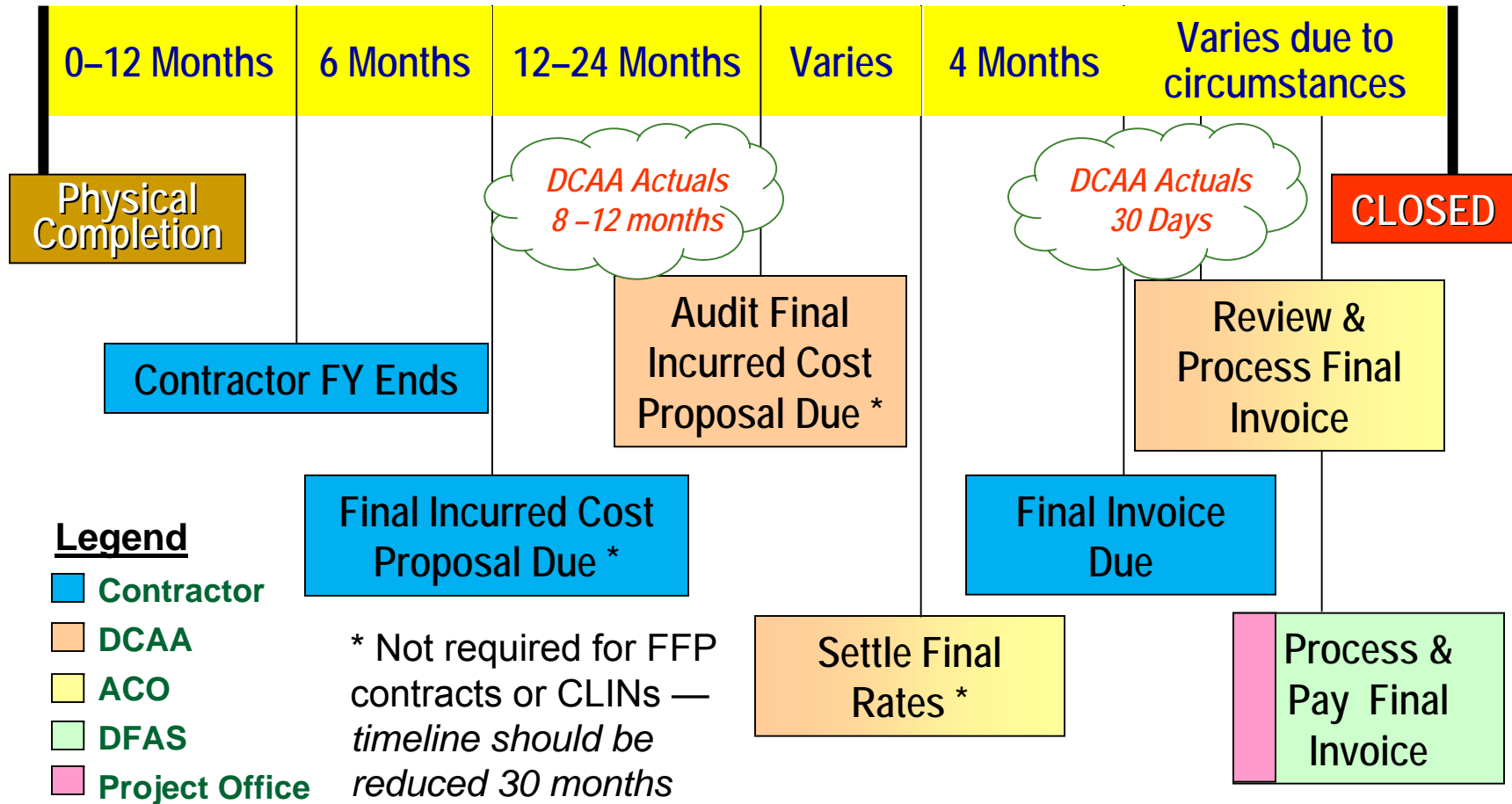
A “Financially Complete” Contract

- All direct and indirect costs incurred
 - Subcontractor costs reconciled
 - DCAA audits completed
 - Indirect cost settlements for POP
- Funds reconciled by CLIN (or SLIN) & ACRN between invoices, payments and contract terms
- No pending claims or litigation
- All financial issues resolved
- No outstanding DCAA Forms 1



Financial Closeout Timeline

Physical completion to closed should be within 36 months



Causes of Financial World Delay

- Indirect rates not settled annually
 - Disallowed costs pending
 - Indirect rates not negotiated
 - Untimely incurred cost proposals
- Fees or withholdings not released
- Final invoice (voucher) not approved
 - Contractor failed to submit timely
 - DCAA audit still ongoing
 - Un-reconciled payments (CLIN & ACRN)



What the Contractor Can Do

- Manage subcontracts at contract start
- Timely settle all subcontracts
 - Request DCAA support audits
 - Make final payments
- Track interim payments received
 - Submit timely progress or interim invoices
 - Verify payments received
 - Question short payments – contact ACO
 - Notify ACO of over-payments



What the Government Can Do

- Reconcile funding by CLIN & ACRN
 - Review annually & for individual CLINs
 - Compare invoices, payments & terms
 - Resolve over- or under-funding issues
- Track invoices to the limitation of cost & funds clause
- Review contracts for Quick Closeout or Early Closeout

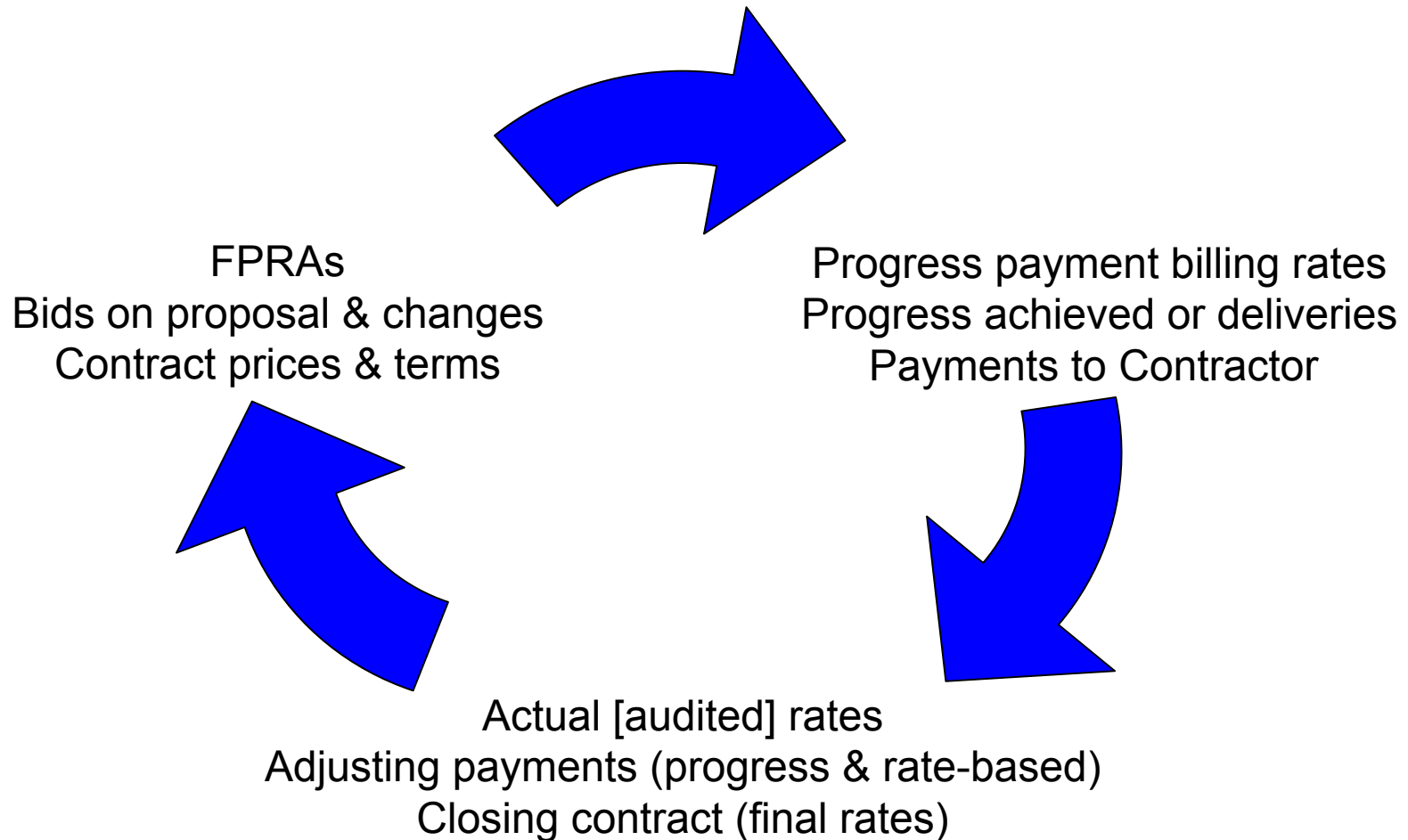


Timing Factors

- Contractor submit ICPs within 6 months after FY end — if not, request ACO extend date before due!
- Contractor submit adjustment invoice within 4 months of each indirect rate agreement
- Government routinely release fees & withholdings



Life Cycle of Indirect Rates



Watch ICP Submission Status

- Are contractor's ICPs submissions accurate and complete?
- Are contractor's ICP submissions current for all flexibly priced CLINs?
- Through what FY are DCAA ICP audits completed?
- Through what FY are indirect rates settled?



Reconciliation of ICPs

\Schedule I					
SCHEDULE OF CUMULATIVE DIRECT AND INDIRECT COSTS CLAIMED AND PAID ON COST/FLEXIBLY PRICED AND T&M CONTRACTS AND SUBCONTRACTS					
Net		Cumulative Billed (Manual			
Cumulative		Date Cost		Over	Physically
Settled or		Billed		(Under)	Complete
<u>Claimed</u>	<u>PV No.</u>	<u>Through</u>	<u>Amount</u>	<u>Billing</u>	(note 7)
note (6)					
638,686	18	2/28/1997	640,110	1,424	
3,301,292	30	3/31/1997	3,295,110	(6,182)	
952,125	24	1/31/1997	960,100	7,975	Yes
1,659,476	33	3/31/1997	<u>1,640,426</u>	<u>(19,050)</u>	Yes
<u>6,551,579</u>			<u>6,535,746</u>	<u>(15,833)</u>	



Prime Contractor Costs Related to Subcontractor ICPs

This Schedule does not		XYZ Corporation			SCHEDULE J	
other schedules.		Anywhere, USA				
SUBCONTRACT INFORMATION						
ICE MANUAL.doc		FISCAL YEAR ENDED 3/31/97				
COSTS						
	SUBCONTRACTOR	POINT OF CONTACT	SUBCONTRACT	INCURRED	AWARD	
SUBCONTRACT	PRIME CONTRACTOR	NAME & ADDRESS	AND PHONE NO.	VALUE	IN FY 1997	TYPE
Subcontracts Issued:						
P.O. #XYZ0	N00039-96-0	Small Company	Ms. Donna Charleston	\$110,500.00	\$87,912.00	CPIF
		1445 Southpark Blvd	Marketing Manager			
		Buffalo, NY 14206	(716) 883-8700 X317			
P.O. #XYZ0	N00040-94-0	Tanza Enterprises	Mr. Mike Tanza	\$895,000.00	\$15,341.00	CPIF
		87B Executive Park	President			
		Fairfax, VA 22033	(703) 983-5640			
P.O. #XYZ0	Subcontract	Argonautics, Inc.	Mr. Ted Kessel	\$152,500.00	\$7,888.00	CPIF
	Prime N000	555 Ocean Parkway	Marketing Manager			
		Anaheim, CA 92803	(714) 998-2000 X12			

Note: Schedule identifies all cost-type, flexibly priced, T&M, and L-H subcontracts



Indirect Cost Reimbursement

- Costs incurred in contract performance are reimbursed when deemed allowable by the ACO in accordance with procurement regulations and contract terms.
- Allowable indirect costs are applied to the allowable contract direct base costs [see FAR 52.216-7]
- The contractor is not eligible to submit a final invoice until all indirect costs are established and negotiated [see FAR 42.705]



Completion Invoice Submission

- Submit a completion invoice when:
 - The contract is physically complete
 - All required reports have been accepted
 - All direct costs have been incurred and booked
 - Indirect costs may be claimed at provisional rates if final rates not available
- Check SF1034 Payment “Complete” box



Flexibly-priced Subcontract Audit

- Subcontractor audits evaluated in completion audit
- Prime Contractor must request audit
 - Supplier may deny audit rights and:
 - Identify company points of contact
 - Identify DCMA & DCAA points of contact
 - Supplier may grant direct cost audit and disclose indirect rates approved by ACO
- Prime contractor must request DCAA assist audit if audit rights denied



The Final Invoice is Timely When

- All direct costs have been booked
- Any subcontractor audits complete
- All subcontracts closed
- Completion invoice & ICP audits complete:
 - Any suspensions and/or audit exceptions have been resolved
 - All final overhead rates are settled
- All withholdings have been released



Final Invoice Preparation

- The final invoice covers:
 - All CLINs & SLINs
 - All POPs
- The final invoice includes any adjustments to invoiced costs necessitated by the final settlement of the contract price



Final Invoice Preparation (cont.)

- For contracts separately invoiced by DO provide:
 - A schedule of final total costs by DO
 - Total contract price for all DOs
- Should include any fees held by ACO or remaining withholdings
- Check SF1034 Payment “Final” box



Final Invoice Format

Prepared on SF1034 & SF1035

SF1035 should include break-down and summary by contractor FYs:

		<u>FY'04</u>	<u>FY'05</u>	<u>FY'06</u>
	OH Rate	30	35	45
	G&A Rate	12	12.5	12
Description				
Major Cost Element				
Labor		\$	\$	\$
Material		\$	\$	\$
ODC		\$	\$	\$
Total		\$	\$	\$



Final Invoice Submission

- Final invoice is due within 120 days after settling amounts and rates
 - ACO may approve extension
 - The ACO may unilaterally determine the final amount when final invoice not received within the specified time, as COFD [see FAR 42.705]
- Invoice is designated as “Final” with “Z” and noted in the box in lower left corner



ALTERNATE CLOSEOUT METHODS

Kenneth Adam



Selecting Closeout Method

- FAR requirements for indirect rates at closeout:
 - Standard closeout — final audited rates [see FAR 42.705-1 & 42.705-2]
 - Quick closeout — negotiated rates in advance of final rates [see FAR 42.708]
 - Early closeout — final or negotiated rates [see FAR 52.232-7]
- Candidates for method based on:
 - Type of contract
 - Total value and POP



FAR Quick-Closeout Procedure

42.708 -- Quick-Closeout Procedure

- (a) The contracting officer responsible for contract closeout shall negotiate the settlement of indirect costs for a specific contract, in advance of the determination of final indirect cost rates, 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 amounts will be considered insignificant when --
 - (i) **The total unsettled indirect cost to be allocated to any one contract does not exceed \$1,000,000;** and
 - (ii) Unless otherwise provided in agency procedures, the cumulative unsettled indirect costs to be allocated to one or more contracts in a single fiscal year do not exceed 15 percent of the estimated, total unsettled indirect costs allocable to cost-type contracts for that fiscal year. [continued next page]



FAR Quick-Closeout Procedure (Cont.)

The contracting officer may waive the 15 percent restriction *[DCMA has waived this % thru 2009 – anticipate extension]* based upon a risk assessment that considers the contractor's accounting, estimating, and purchasing systems; other concerns of the cognizant contract auditors; and any other pertinent information; and

- (3) Agreement can be reached on a reasonable estimate of allocable dollars.
- (b) Determinations of final indirect costs under the quick-closeout procedure provided for by the Allowable Cost and Payment clause at 52.216-7 shall be final for the contract it covers and no adjustment shall be made to other contracts for over- or under-recoveries of costs allocated or allocable to the contract covered by the agreement.
- (c) Indirect cost rates used in the quick closeout of a contract shall not be considered a binding precedent when establishing the final indirect cost rates for other contracts.



Candidates for Quick Closeout

- Fall within the FAR definition
- ACO willing to accept rates negotiated based on rates
 - Determination of indirect rates under quick closeout are final for the contracts under this procedure and no adjustments are made to other contracts
 - These rates are not considered binding precedence when establishing final indirect cost rates on other contracts



DCAAM Definition of Candidates

- Final POP generally is less than full FY
- Direct and indirect costs incurred in the last FY may be relatively small, particularly if the contract is physically completed early in the year [see DCAAM 6-1010]
 - It is generally mutually advantageous to the Government and contractor to close such contract as soon as possible
 - Do not wait for year-end and final determination of the rates



Selection of Candidates

- Teamwork — ACO, DCAA & Contractor
 - Contractor contacts DCAA; forwards to ACO
 - PCO – May contact ACO for any open action
- ACO — Usually the primary person to identify candidates
- Contractor — Aggressively request quick close



Low-risk Quick-Close Candidates

- **If contractor can support:**
 - Adequate, approved accounting system
 - Approved billing system
 - Integrated billing rates to billing system
 - ICPs submitted timely
- **Request Quick-Closeout at same time ICP submitted to DCAA**



Quick-Closeout Process

- ACO contacts Contractor **or**
Contractor initiates process with letter
- Contractor:
 - Prepares proposed indirect rates for 3 years preceding — must support unsettled rates during POP!
 - Provides settled and/or DCAA negotiated rates and dollars for FYs during POP
 - Identifies contract status



Sample Indirect Rate Analysis

Typical analysis when proposing rates higher than settled rates

INDIRECT COST RATE SUMMARY			
Last 3 Yrs settled	Prop/Cert.		Final
FY03			
OH	123.2%		122.1%
G&A	10.0%		8.5%
FY04			
OH	125.0%		126.0%
G&A	10.5%		10.5%
FY05			
OH	124.0%		125.4%
G&A	12.0%		10.0%
Unsettled Year			
FY06			
OH	125.0%		
G&A	12.5%		



Rates for Unsettled Years

- Methods to look at unsettled rates
 - By use of a factor
 - Factor based on calculated difference between certified, proposed certified rates and settled rates for last 3 years
 - Apply average factor to unsettled rates
 - By use of a percentage
 - Eliminates the calculation of the difference between rates & years
- Contractor must be prepared to defend rates



Application of Factor to Rates

Fiscal Year	Proposed	Audited	Factor	Formula
2003	10.00%	8.50%	0.1500	$(10.00-8.5)/10.00$
2004	10.50%	10.80%	(0.0286)	$(10.50-10.5)/10.50$
2005	12.00%	10.00%	0.1667	$(12.00-10.0)/12.00$
2006	12.50%			
		Factor Sum	0.2881	$=0.15+(0.0286)+.1667$
		Average	0.096032	$= 0.2881 / 3$
		Factor (reduce)	0.01200	$= 12.50\% \times .012 = .15$
2006 Proposed for closeout			12.35%	$= 12.50\% - .15 = 12.35\%$



Establish Rates for Quick-Close

- Indirect rates must be deemed to be fair and reasonable to both parties
- Estimated rates for final FY are based on contractor's actual data adjusted for historical disallowances found in prior FYs
- DCAA contacts ACO after completing audit
- Final rates are negotiated for unsettled years



Completing Quick-Close Process

- ACP prepares advanced agreement
 - Forwards agreement to Contractor
 - Contractor prepares final voucher (or invoice)
- ACO verifies all required closeout documentation received
- ACO and Contractor execute advance agreement
- Contractor submits Final Voucher within 30 days after execution of the advance agreement



Contracts Eligible for Early Closeout

- Task orders on T&M contracts
- Delivery orders under IDIQ contracts
- Labor-hour tasks under IDIQ contracts



Benefits of Early Closeout

- Allows for timely closeout
- Prevents systematic cancellation of funds
- Allows the ACO to deobligate excess funds on physical completion of TOs and DOs
- Reduces administrative closeout requirements



Candidates for Early Closeout

- IDIQ contracts with FAR 52.232-7
 - Government may retain 5% of payments up to \$50K [see FAR 52.232-7(a)(7)]
 - Release of withholdings is linked to the Contractor release [see FAR 52.232-7(g)]
- T&M contracts with FAR 52.216-29 or 52.216-30
- CPFF contracts with FAR 52.216-8



7 Steps for Successful Closeout

- Read the contract (and comply with it)
- Submit invoices that meet contract terms
- Integrate contract completion & closeout into contract performance
- Close subcontracts timely
- Use a checklist and target completion of all administrative requirements within 90 days after physical completion
- Maximize Quick and Early closeout
- Submit proper final documentation: invoice, certifications & release forms



Your Questions



Abbreviations and Acronyms

ACO — Administrative contracting officer

ACRN — Accounting classification reference number

CAO — Contract administration office

CAS — Cost Accounting Standards

CAS 401, Consistency in Estimating, Accumulating, and Reporting Costs

CLIN — Contract line item number

COFD — Contracting officer's final decision

COR — Contracting officer's representative

COTR — Contracting officer's technical representative

CPAF — Cost plus award fee [contract type]



Abbreviations and Acronyms (cont.)

CPAR — Contractor Performance Assessment Report

CPFF — Cost plus fixed fee [contract type]

DCAA — Defense Contract Audit Agency

DCAAM — DCAA Manual [Contract Audit Manual]

DCMA — Defense Contract Management Agency

DFARS — Defense FAR Supplement

DFAS — Defense Finance and Accounting Service

DO — Delivery order

DoD — Department of Defense

ECP — Engineering change proposal

FAR — Federal Acquisition Regulation

FFP — Firm-fixed price [contract type]



Abbreviations and Acronyms (cont.)

FPIF — Fixed-price incentive fee [contract type]

FPRA — Forward pricing rate agreement

FY — Fiscal year

GFM — Government-furnished material

ICP — Incurred cost proposal

IP — Intellectual property

LOE — Level-of-effort

MPA — Master purchase agreement

MOCAS —Mechanization of Contract Admin. Services

PCO — Procuring contracting officer

PO — Purchase order

ULO — Unliquidated obligation



Abbreviations and Acronyms (cont.)

POA&M — Plan of action and milestones

POP — Period of performance

QAR — Quality assurance representative

RFP — Request for proposal

SLIN — [contract] Sub-line item number

SUPSHIP — Supervisor of Shipbuilding, Conversion and Repair, USN [local office is Bath Det. San Diego]

SWRMC — Southwest Regional Maintenance Center

Ts&Cs — Terms and conditions of contract

VECP — Value engineering change proposal

WAWF — Wide Area Work Flow

w/ — with



Referenced FAR Clauses

FAR 4.804, Closeout of Contract Files

FAR 15.406-2, Certificate of current cost or pricing data

FAR 16.306, Cost-Plus-Fixed-Fee Contracts

FAR 32.006, Reduction or Suspension of Contract Payments Upon Finding of Fraud



Referenced FAR Part 42 Clauses

FAR 42.302, Contract Administration Functions

FAR 42.705, Final Indirect Cost Rates

FAR 42.705-1, Contracting Officer
Determination Procedure

FAR 42.705-2, Auditor Determination
Procedure

FAR 42.708, Quick-Closeout Procedure



Referenced FAR Part 52 Clauses

FAR 52.215-2, Audit and Records—Negotiation

FAR 52.216-7, Allowable Cost and Payment

FAR 52.216-8, Fixed Fee

FAR 52.216-29, Time-and-Materials/Labor-Hour
Proposal Requirements—Non-Commercial Item
Acquisition With Adequate Price Competition

FAR 52.216-30, Time-and-Materials/Labor-Hour
Proposal Requirements—Non-Commercial Item
Acquisition Without Adequate Price Competition

FAR 52.232-7, Payment Under Time-and-
Materials and Labor-Hour Contracts



Other Referenced Documents

DFARS 204.8, Contract Files

DFARS 204.804, Closeout of Contract Files

DCAAM 6-1009, Processing of Completion
Vouchers

DCAAM 6-1010, Quick-Closeout Procedures

DCMA Contract Closeout Guidebook [on-line @
DCMA website]



Referenced DoD Contract Forms

DD250 (AUG 2000) — Material Inspection and Receiving Report

DD254 (DEC 1999) — Contract Security Classification Specification

DD882 (JUL 2005) — Report of Inventions and Subcontracts

DD1593 (APR 1969) — Contract Administration Completion Form

DD1594 (FEB 1970) — Contract Completion Statement

DD1597 (APR 2000) — Contract Closeout Check-list



Other Referenced Forms

DCAA Form 1 (MAR 1999) — Notice of Contract Costs Suspended and/or Disapproved

SF1034 (OCT 1967) — Public Voucher for Purchases and Services Other Than Personal

SF1035 (SEP 1973) — Public Voucher for Purchases and Services Other Than Personal *Continuation Sheet*



EARLY CLOSE-OUT PROCESS

Kenneth Adam



Early Closeout Process

- Establish early closeout at the contract onset (post award item)
- ACO issue a letter to the PCO recommending early closeout
- ACO notify contractor if PCO concurs
 - Identify early closeout procedures
 - Notify DCAA that early closeout will be used



Completion Invoicing Procedure

- Contractor prepare invoice upon Government acceptance of work
 - Check SF1034 Payment “Complete” box
 - Each completion voucher will contain:
 - Certification: “I certify that the requirements of this task order have been satisfactorily completed and that final acceptance has been made and signed by the Government Representative designated for Government Acceptance”
 - Total unaudited allowable costs
- Submit certified invoice to ACO



ACO Consideration of Payments

- Adequacy of the contractor's accounting & billing system
- Hold open enough TOs or DOs to satisfy the 5% or \$50K withhold
- DOs held open should:
 - Include costs for each FY of POP
 - Include some until final indirect cost rates settled for the entire POP



ACO Review & Approval Process

- Verify that all contractual requirements have been satisfied (*i.e.*, task order physically complete)
- Approve the completion voucher
 - Sign “hard copy” of voucher
 - Approve on-line for vouchers in WAWF
- Forward hard copy to the payment office for payment



Final Invoicing Procedure

- Contractor prepares invoice when final rates settled
 - Check SF1034 Payment “Final” box
 - The final voucher will contain:
 - Contractor Assignment Form
 - Recap of costs for each DO or TO issued
- DCAA will issue a single Contract Audit Closing Statement which will include a review of allowable and allocable costs per DO (or TO)



ACO Process for Final Voucher

- Verify Contractor's Release and any other required closeout forms received
- Review the final voucher and CACS
 - Review the level of effort and make necessary adjustments
 - Verify:
 - That the contractor has complied with the contract terms & conditions
 - That the contractual limitations have not been exceeded
 - The net billable amount



After-the-fact Early Closeout

- Early closeout can be “after the fact”
- When completion vouchers are impractical, TOs can be closed out by bi-lateral modification
- Such modification do not include TOs held open as retentions



Records for After-the-fact Closeout

- Key to early closeout is maintaining records on orders closed using completion vouchers or bilateral modifications
- If it is an LOE contract, records include:
 - Order Fee Ceiling Amount
 - Level of Effort required
 - Actual level of effort expended
 - Fee billed through vouchers or bilateral mods



After-the-fact ACO Process

- Identify candidate contracts
 - Coordinate with DCAA & the contractor
 - Identify TOs to be closed
 - Identify TOs to be held open to maintain the required withholding
- An ACO letter to the PCO, DCAA and the contractor outlines the procedure & identifies TOs to be left open



After-the-fact ACO Considerations

- TOs to be held open for:
 - Unliquidated balances
 - Canceling funds
 - Still within the POP
- Rates to be established by mutual agreement between ACO and Contractor, based on historical data and current financials



Early Closeout of CPFF Contracts

- Early closeout of CPFF TOs or CLINs is acceptable because:
 - TOs are not individual contracts
 - Clauses governing the closeout process do not prohibit using it
- The ACO follows the same procedures as for T&M contracts



Early CPFF Closeout Process

- FAR Clause 52.216-8 Fixed Fee applies:
 - Contracting Officer may establish a fee reserve
 - The reserve shall not exceed 15% or \$100,000
- No need to exercise the withhold for a contractor with a record of:
 - Submission of final cost vouchers
 - Submission of certified final indirect cost proposals
 - Compliance with other contract terms and conditions
- If the ACO determines to implement the fee withhold, direction should be provided to the contractor in a modification to the contract



CONTRACT CLOSEOUT PROCESS FLOWCHART



Sample TO Completion Memo

Date:

To: (COR/Designated Office for Government Acceptance)

From: (Contractor—Contract Manager or Program Manager)

Via: (Government Technical Point of Contact if the COR is not the one who signs for Government Acceptance)

Subj: Task Order Completion Memo for Contract XX-D-XXXX/Task Order XXXX

(Contractor has completed the requirements of the subject Task Order as evidenced by delivery of the following CDRL Items (and deliverables as evidenced by copies of DD 250's) which have been provided to the Government. Your signature below represents Final Acceptance of our performance, that all deliverables have been received and that the Task Order can be closed out.

CRL Item	Date Due	Date Delivered
A001 Monthly Status Reports	10 th of the Month	All Delivered
A002 Contract Funds Status Report	10 th of the Month	All Delivered
A003 Trade Study	XX/XX/XX	XX/XX/XX
A004 Final Report	XX/XX/XX	XX/XX/XX



Sample Memo (continued)

(For Level of Effort Task Orders) The required Level-of-Effort (LOE) for this Task Order is X,XXX hours. The LOE provided was X,XXX hours, which (does/does not) satisfy the required LOE. (If less than the required LOE is provided, specify the calculated reduction in fee and the final fixed fee.)

We have reviewed the funds remaining. We have identified \$X,XXX as excess to the needs of this Task Order for closeout and submission of the final voucher, which we agree to release.

(If applicable: All material and supplies purchased for this Task Order have been consumed during performance.) All Government Furnished Property (GFP) received during the performance of this effort has been dispositioned (except for the attached listing). (If there is GFP or Contractor Acquired Material (CAM) that has not been dispositioned, briefly identify what actions are being/have been taken/are pending to obtain disposition instructions). The final DD 1662 has been (will be) provided to the Administrative Contracting Officer (when all property has been dispositioned.)

There were no (or X number of) subcontractors used during the performance of this effort. The Final DD Form 882 Report of Inventions and Subcontracts (has been /will be provided by (date).

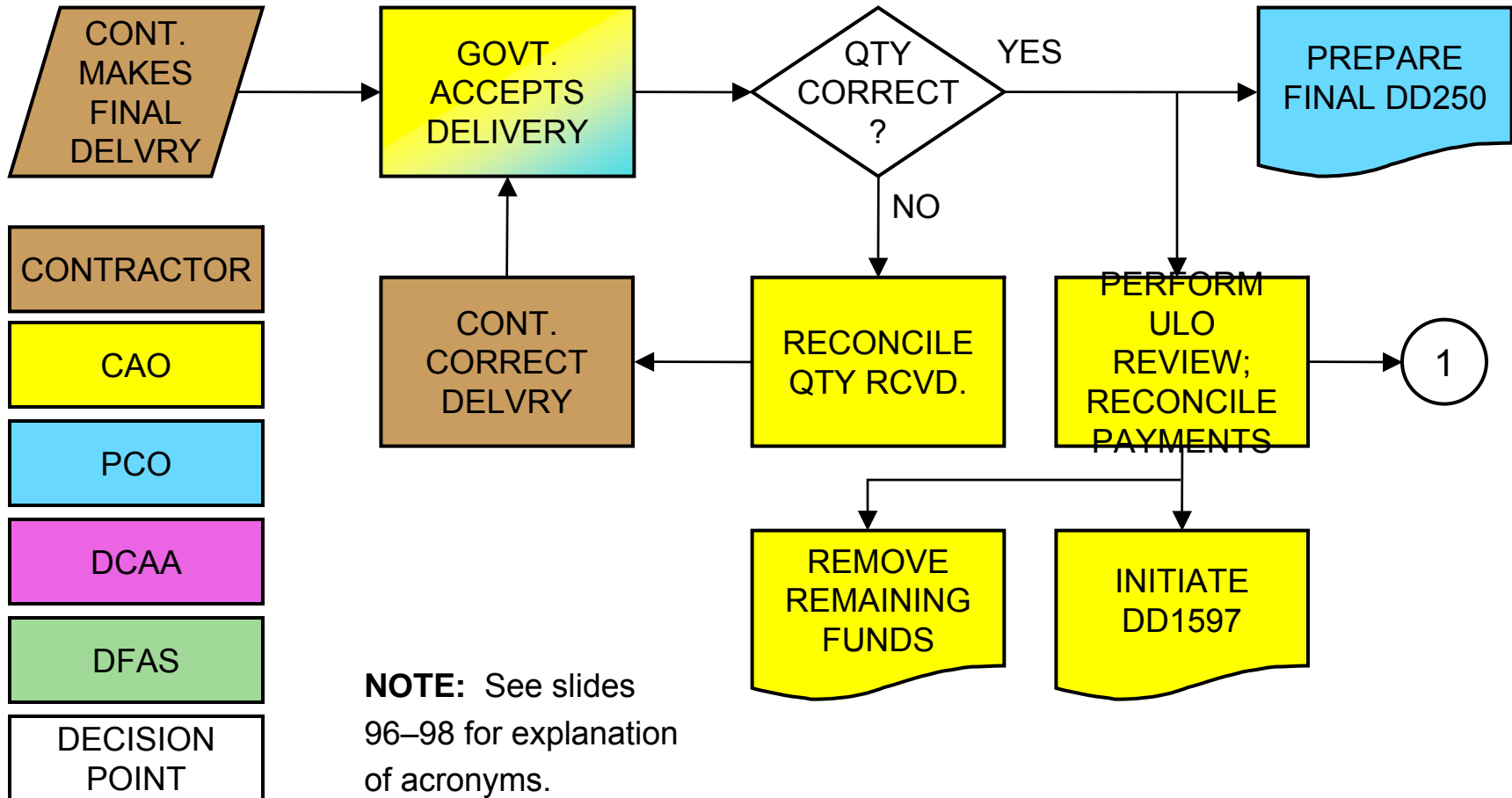
Your acceptance notwithstanding, we are separately addressing the administrative requirements of this Task Order for final invoicing and closeout.

Signed
(Program Manager/Contracts Manager)

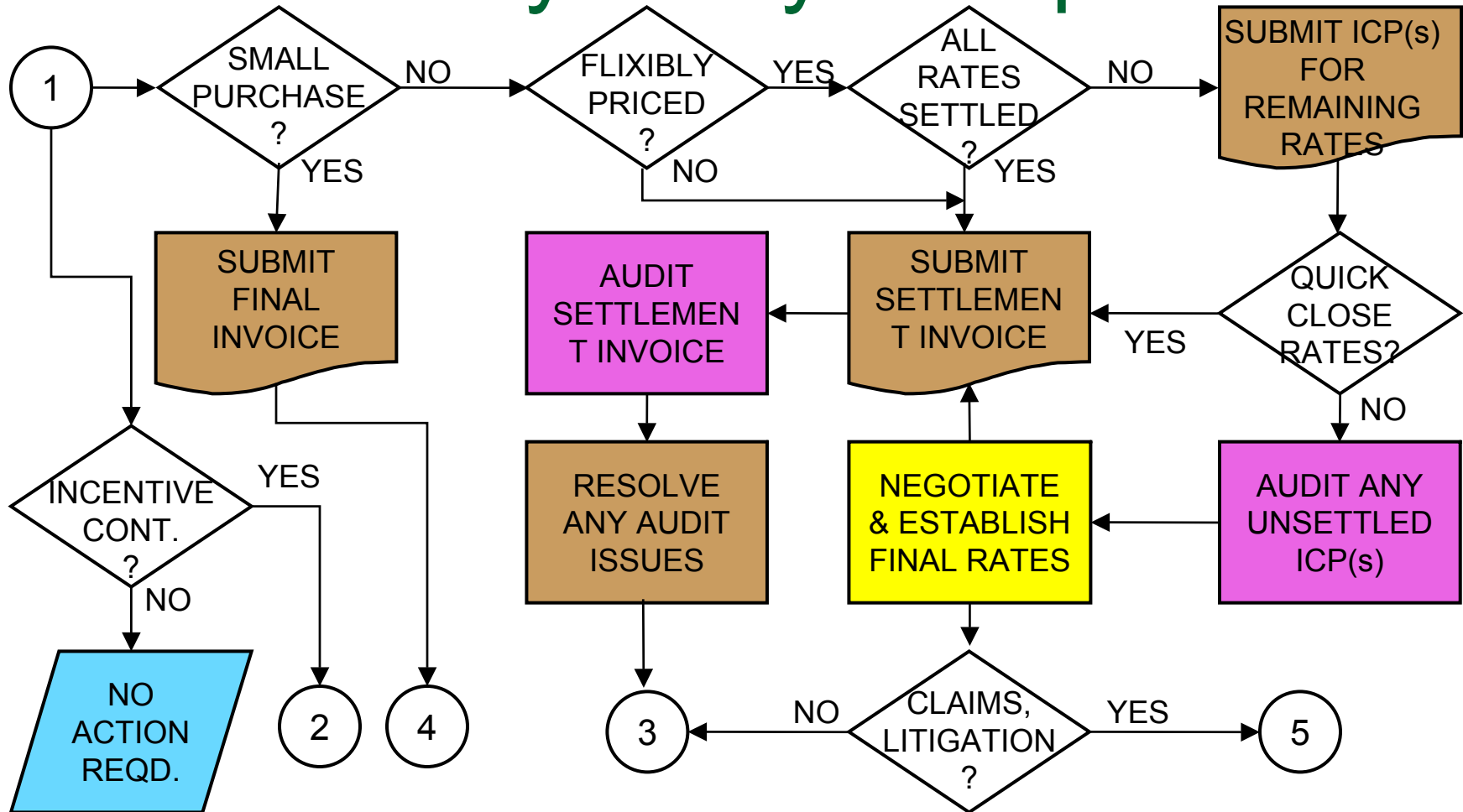
cc: PCO, ACO



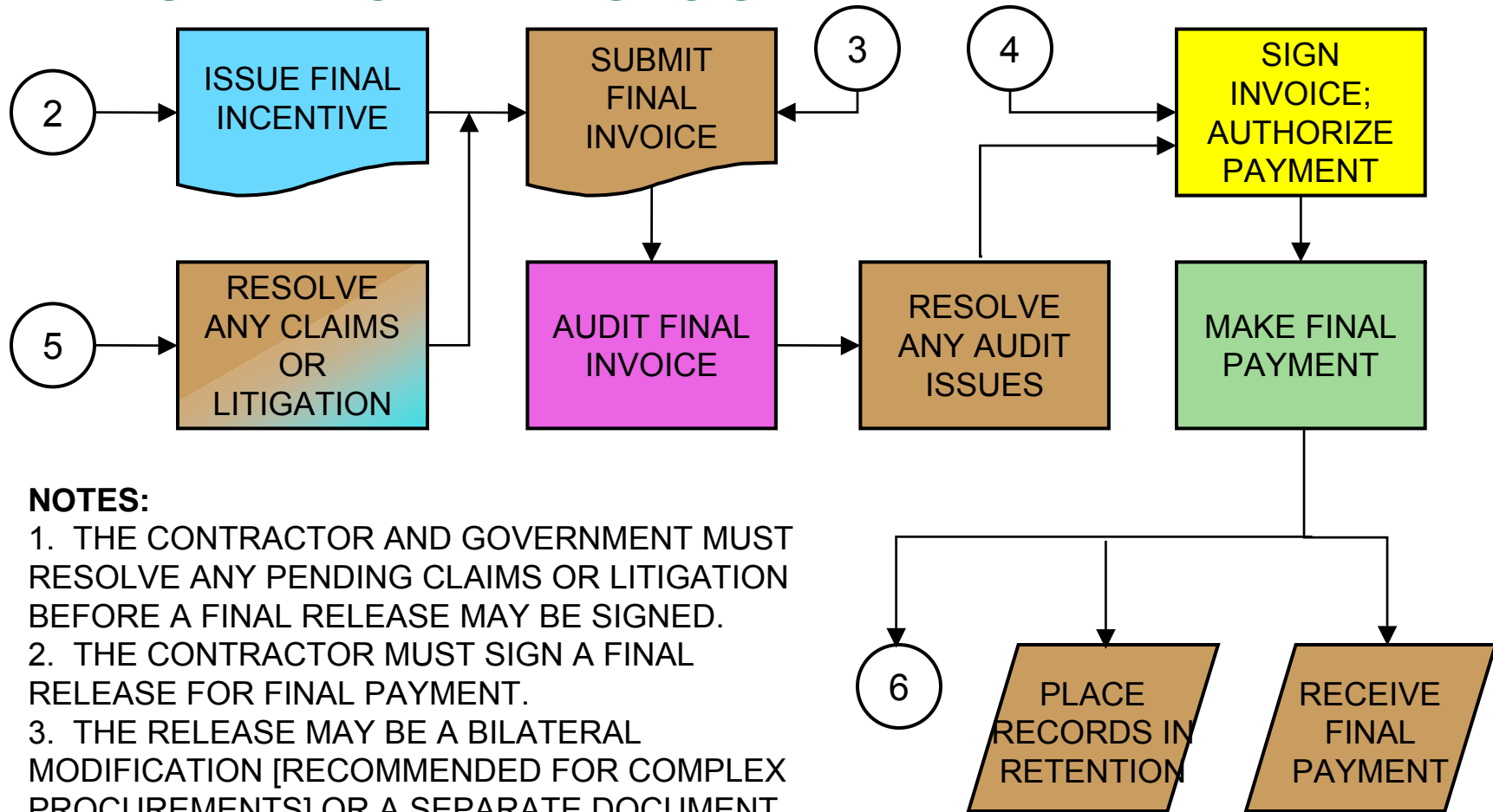
Contract Closeout Process — Contract Physically Complete



Contract Closeout Process — Contract Physically Complete



Contract Closeout Process — The Final Invoice



Contract Closeout Process — The Government Wrap-up

