

# Best Practices for Contract Closeout



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- Overview
- Current Environment
  - Government Recovery Actions
  - Contractor Requirements
- Closeout Process Overview
  - Roles and Responsibilities
  - Physically Complete Contracts
  - Standard Timing for Closeout
- Incurred Cost Proposal
  - Schedule O
  - Schedule I
  - Cumulative Allowable Costs Worksheet (CACWS)
- Cumulative Payment History
- Quick Closeout
- Contract Closeout Process
  - Pursuant to FAR 4.804-5
- Best Practices



- Physical completion of a contract triggers contract closeout activities
- Timely and efficient contract closeout can:
  - Save *money*
    - Receive final payment and minimize strain on cash flow
    - Reduce administrative costs associated with maintaining books and records
  - Save *time*
    - Reduce time looking for documents needed
  - Save *resources*
    - Utilize people who have worked on the contract (e.g., program managers, contract administrators and other accounting staff) to perform closeout actions shortly after completion

- Defense Contract Audit Agency (DCAA) backlog of incurred cost audits
  - DCAA under pressure to improve audit quality and conduct audits faster
- Statute of Limitations: Contracting Officer (CO) shall issue a written decision on any Government claim against a Contractor within six years after the accrual of the claim. (FAR 33.206)
  - Applies to contracts awarded after October 1, 1995
- Canceling funds: funds that are no longer available for anything, including paying the bills

- DCAA continued a risk-based incurred cost audit initiative based on a set of revised criteria
  - DCAA closed out 6,786 incurred cost years in FY2017
  - Year-end balance of 2,860 in incurred cost submissions
    - 1,817 less than prior year-end balance
- Dollar threshold that triggers an automatic audit (i.e., high-risk) raised from \$15 million to \$250 million
- Audits below \$250 million will be assessed for risk
- Low-risk proposals are selected for audit using sampling techniques

<b>High-Risk ICP Criteria</b>	<b>Low-Risk ICP Criteria</b>
<ul style="list-style-type: none"> <li>ICPs greater than \$250 million auditable dollar value (ADV)</li> </ul>	<ul style="list-style-type: none"> <li>&lt;\$1M ADV: Questioned cost is =&lt; 10% of the last completed incurred cost audit's ADV</li> <li>\$1M-\$5M ADV: Questioned cost is =&lt; 5% of the last completed incurred cost audit's ADV or \$100K, whichever is greater</li> <li>\$5M-\$250M ADV: Question cost is &lt;\$250k in the last completed incurred cost audit</li> </ul>
<ul style="list-style-type: none"> <li>New Contractors with no incurred cost audit experience</li> </ul>	<ul style="list-style-type: none"> <li>DCAA has performed at least one incurred cost audit on the Contractor</li> </ul>
<ul style="list-style-type: none"> <li>Significant risk or audit leads identified</li> </ul>	<ul style="list-style-type: none"> <li>No major fraud considerations or other specific relevant risks identified</li> </ul>
<ul style="list-style-type: none"> <li>Unacceptable pre-award or system deficiency</li> </ul>	<ul style="list-style-type: none"> <li>Completed pre-award accounting system and lack of significant deficiencies for other system reviews</li> </ul>
<ul style="list-style-type: none"> <li>Significant questioned costs in prior year audit</li> </ul>	<ul style="list-style-type: none"> <li>DCAA did not question a "significant total exception" amount</li> </ul>



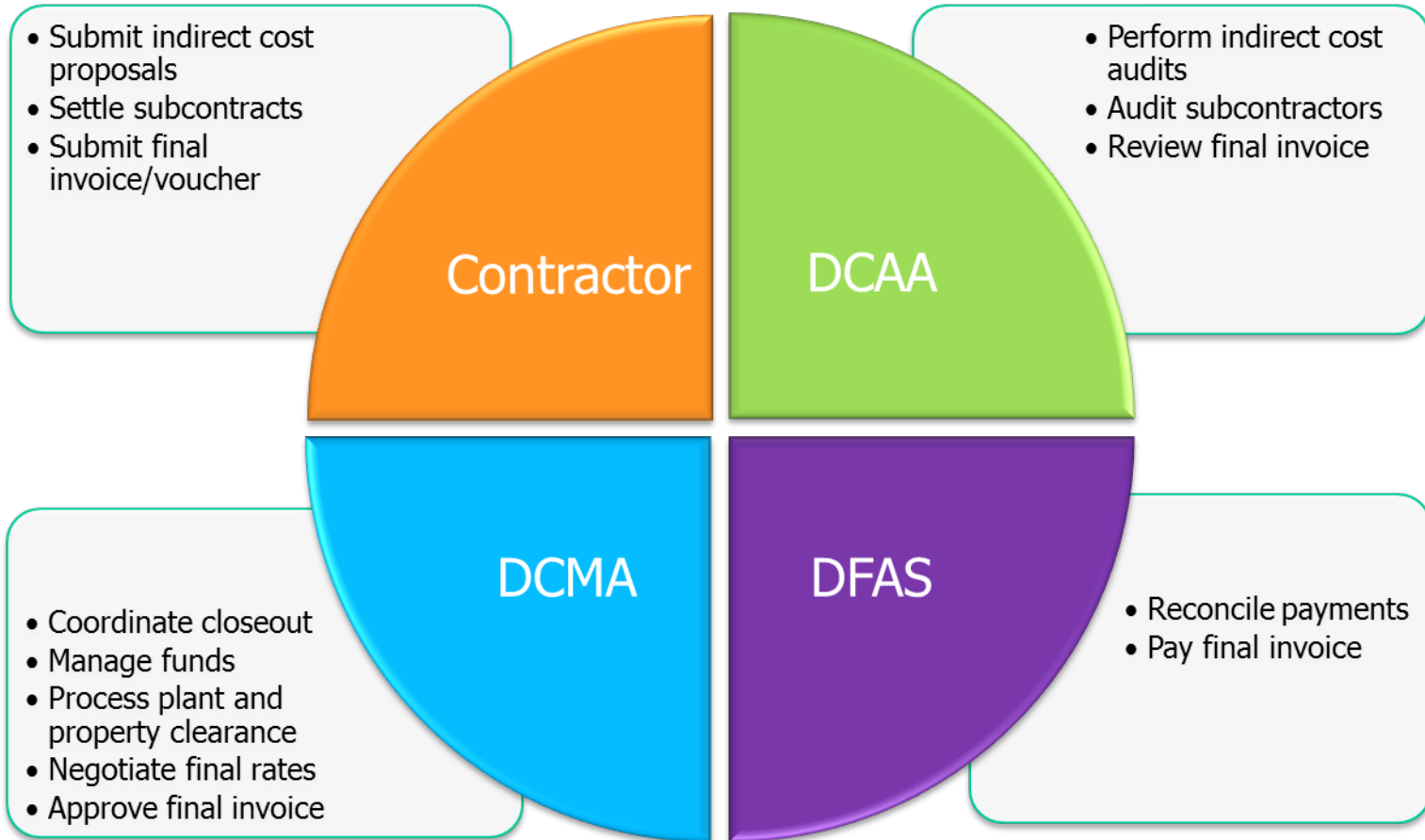
- Defense Contract Management Agency (DCMA) issued Quick Closeout Class Deviation authorizing Administrative Contracting Officers (ACO) to close contracts prior to the establishment of indirect cost rates (regardless of dollar value or the percent of unsettled direct costs and indirect costs allocable to the contract)
- Contractor must have submitted final certified indirect rate cost proposal or ACO received Low-Risk Adequacy Memorandum from DCAA
- Applies to Cost-Reimbursement, Fixed-Price Incentive or Redeterminable and Time-and-Materials (T&M) contracts
- Deviation effective through September 30, 2017 (extension not yet published)

- Quick Closeout Class Deviation is subject to the following restrictions:
  - ACOs must use DCAA recommended rates or other rates mutually agreed to by the ACO and Contractor
  - ACO may waive the audit requirement when compelling reasons exist (decision is made by cognizant ACO and DCAA)
  - ACOs must ensure closeout does not impact the Government's negotiation flexibility on remaining unsettled contracts
  - Indirect cost rates under this deviation cannot be considered when establishing the final indirect cost rates for other contracts



- The “Allowable Cost and Payment” clause, FAR 52.216-7(d) requirements include:
  - Prepare and submit ICP within six months following end of each fiscal year
  - True up all interim vouchers within 60 days after rates are settled
  - Close subcontracts before closing the prime contract (i.e., subcontractors submit ICP for final rates, parties negotiate, and prime pays subcontractor’s final voucher)
  - Prepare final voucher within 120 days after rates are settled, including subcontractor rates

- Contract closeout is the process to finish or resolve all contractual requirements on a physically complete contract
  - Performance completion
  - Financial completion
  - Administrative completion
- Objective: Establish final price and make final payment



- FAR 4.804-4 defines a physically complete contract as 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, or the Government has given the Contractor notice of contract termination

- FAR 4.804-1(a) states after receipt evidence of physical completion, the following time standards are in place for the Government to close out contract files:

Contract Type	Government Standard for Closing Out Contract Files
All other firm-fixed-price contracts	6 months
Flexibly priced contracts (e.g. Cost Reimbursement, T&M, and Labor Hour contracts)	36 months
All other contracts types (i.e., fixed price redetermination, fixed price with economic price adjustment, basic ordering agreement/blanket purchase agreement)	20 months

- Contract Closing Information
  - Identifies cost type, T&M, flexibly priced, and level of effort type contracts that will be closed after this current incurred cost submission is audited and the final indirect rates are agreed upon
  - Includes the following information, broken out by contract type:
    - Contract Number
    - Period of Performance
    - Overall ceiling amount
    - Contract fee
    - Fee computation (if level of effort or flexibly priced)

XYZ CORPORATION ANYWHERE, USA										SCHEDULE O
SCHEDULE OF CONTRACT CLOSING INFORMATION FOR THOSE CONTRACTS FOR WHICH WORK EFFORT WAS COMPLETED DURING FISCAL YEAR ENDED 3/31/2009										
CON-TRACT NO.	Order No.	Performance Period		Ready To Close (1)	Contract Ceiling Amount (2)	Contract Fee (3)	Level of Effort Cumulative Hours		Notes	
		From	To				Required	Actual		
Cost Type:										
Subcontract -Clark Inc.		2/16/05	2/28/09	Yes	\$1,000,000	\$60,000	15,000	14,558		
N00060-06-C-0913		10/16/06	12/28/08	Yes	\$1,750,000	\$112,000	27,500	28,950		
Time & Material:										
N00022-06-D-0111	0001	7/1/06	12/31/08	Yes	\$25,000					

**Explanatory Notes:**

(1) Indicate whether the contract is ready to close based on all information available. If the contract is not ready to close (e.g. a contract modification is being pursued, waiting for subcontract final billing), the reasons why should be stated in a footnote.

(2) Provide the overall contract ceiling amount, before fee, for the type of contract.

(3) Provide fee amount as provided by the contract. Include details of the fee computation for all flexibly priced incentive fee and level of effort type contracts, along with the contract modification used, in a footnote.



- Schedule of cumulative direct and indirect costs claimed and billed from inception to date.
- All cost reimbursement and T&M contracts are broken out by line item
- Current year claimed costs are pulled from Schedule H (direct costs by contract) and Schedule K (summary of amounts on T&M contracts) and added to prior year claimed/settled costs
- Billed costs are determined from the final invoice of the Contractor's fiscal year
- **Goal is to calculate the total over or (under) billing on each contract**



XYZ CORPORATION  
ANYWHERE, USA

SCHEDULE OF CUMULATIVE DIRECT AND INDIRECT COSTS  
CLAIMED AND BILLED COST BY CONTRACT AND SUBCONTRACT  
FISCAL YEAR ENDED (FYE) 3/31/2009

SCHEDULE I

Contract No.	Subcontract No.	Order No.	Subject to Penalty Clause Note (2)	Prior Years Settled Total Costs Note (3)	Unsettled/Claimed Direct and Indirect Costs		Total Cumulative Settled or Claimed	Less: Contract Limitations, Rebates, Credits Note (5)	Net Cumulative Settled or Claimed Note (6)	Cumulative Costs billed			Over (Under) billing	Physically complete (Note 7)
					FYE 3/31/08 Note (4)	FYE 3/31/09 Note (4)				PV No.	Thru	Amount		
<u>Cost Type &amp; Flexibly Priced: (Note 1)</u>														
N00039-05-C-0873		1201	Yes	\$0	\$126,821	\$511,424	\$638,245		\$638,245	18	2/28/2009	\$640,110	(\$1,865)	
N00040-05-C-0874		1203	Yes	382,595	2,867,500	51,141	3,301,236		3,301,236	30	3/31/2009	3,295,110	-6,126	
N00041-06-C-0777	45085	1204		359,626	555,311	37,187	952,124		952,124	24	1/31/2009	960,100	7,976	Yes
N000060-05-C-0913		1205	Yes	591,362	443,916	623,468	1,658,746		1,658,746	33	3/31/2009	1,640,426	-18,320	Yes
					(Sched. H)									
Subtotal - Cost Type Time & Material							\$6,550,351		\$6,550,351			\$6,535,746	(\$14,605)	
N00022-06-D-0111	SC4875	1				\$10,600	\$10,600		\$10,600	6	3/31/2009	\$10,848	\$247	Yes
N00022-06-D-0111	SC4875	2				5,950	5,950		5,950	6	3/31/2009	5,000	-950	
F66777-07-D-0112		1				6,000	6,000		6,000	2	3/31/2009	5,750	-250	
					(Sched. K)									
Subtotal-Time & Material							\$22,550		\$22,550			\$21,598	(\$953)	
<b>TOTAL</b>									\$6,572,901			\$6,557,344	(\$15,558)	

# Cumulative Allowable Costs Worksheet (CACWS)



- CACWS is a summary schedule of cumulative allowable costs for each open flexibly priced contract through the last Contractor fiscal years where the indirect costs rates have been settled
- CACWS may contain sufficient detail for ACOs to close contracts without individual contract audit closing statements
- Can be prepared as part of the incurred cost submission (e.g., Schedule I of ICP)
- Once DCAA has verified, Contractors no longer have to provide the level of cost/rate detail on the SF1035 when submitting final vouchers for closeout
- Could reduce resources necessary to close out a contract

# Cumulative Allowable Costs Worksheet (CACWS)

Contract Number	Order	Subject To Penalty Clause	Prior Settled Years	Direct & Indirect Costs Using Settled Rates FYE 12/31/2009	Subtotal	Less: Contract Limitations	Total Direct & Indirect Costs Using Settled Rates	Assist Audit Amounts Incl. in Total	Ready To Close	Actual LOE Cum Hours	Fee	Note
		(1)	(2)	(2)		(3)	(4)	(5)				
<i>Sch I/Sch O</i>	<i>Sch I</i>	<i>Sch I</i>	<i>Sch I</i>	<i>Results Of Audit or Sch H</i>				<i>Per Assist Audit Requests</i>	<i>Sch O</i>	<i>Sch O</i>	<i>Sch O</i>	
Cost Type												
N00039-99-C-0069		Yes	\$298,389	\$8,250	\$306,639		\$306,639	\$140,000	No			
N00040-99-C-0075		Yes	128,878	12,295	141,173	\$1,915	139,258		Yes	9,574		
DASW01-99-D-0075	017	Yes	1,035,278	615,725	1,651,003		1,651,003		Yes	112,000		
F0609-98-C-0001		Yes	509,235	1,245,860	1,755,095		1,755,095		No			
T&M				Sch K								
N00024-99-D-0986	002	No	137,329	386,715	524,044		524,044		Yes			
Subcontract ABC-001		No		69,900	69,900							(6)

# Cumulative Allowable Costs Worksheet (CACWS)

Contract No	Subcontract No	Name	Address	Claimed Subcontract Costs (Note 7)					Allowable Subcontract Assist Audit Amts Thru FY 2003 (Note 8)	SubK Compl?
				FY 2002	FY 2003	FY 2004	FY 2005	Total		
N00039-99-C-0069	0069-SUBKA	Subcontractor A	1234 Any Street							
			Town, USA	\$25,000	\$25,000	\$25,000		\$75,000	\$60,000	No
	0069-SUBKB	Subcontractor B	567 Road							
			City, USA	25,000	25,000	25,000		75,000	80,000	No
N00039-99-C-0069 Total								150,000	140,000	

**NOTES:**

- (1) FAR 42.709 implements 10 U.S.C. 2324(a) - (d) and 41 U.S.C. 4303, which requires that penalties be assessed if a contractor claims an expressly unallowable cost in an indirect cost settlement proposal on covered contracts. Covered contracts include all cost type and fixed-price-incentive contracts in excess of [Insert relevant threshold information based on contract award dates in the contractor's proposal as follows: \$500,000 issued on or after October 1, 1995 and before January 19, 2005; in excess of \$650,000 issued on or after January 19, 2005 and before September 28, 2006; in excess of \$650,000 for contracts issued after September 28, 2006 and before October 1, 2010; and in excess of \$700,000 for contracts issued on or after October 1, 2010.]
- (2) These costs, by contract, are computed using the negotiation or rate agreement document. Some fiscal years [Insert Fiscal Years] were dispositioned based on the Defense Procurement and Acquisition Policy Class Deviation- DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals (No. 2012-O0013) dated July 24, 2012, and as a result were not audited. Direct costs are subject to adjustment until final payment.
- (3) Contract limitations include costs incurred that are (i) in excess of contract ceiling rates, (ii) unallowable per contract terms, (iii) outside the period of performance, or (iv) in excess of contract ceiling amounts that are not already excluded, for contracts identified as ready to close.
- (4) The cumulative allowable amounts in this column are not-to-exceed contract ceiling amounts and are subject to the resolution of subcontract assist audits identified in Note 5.
- (5) Costs in this column are considered unresolved pending subcontract completion and receipt of final cumulative allowable subcontract costs. See Section II for details of subcontracts included in this amount.
- (6) Subcontract under Prime Contract No. DASW01-94-D-0038 awarded to XYZ Company.
- (7) Costs in these columns represent the subcontract costs claimed as shown in Schedule J (or equivalent) of the prime contractor's incurred cost submissions for each fiscal year.
- (8) Costs in this column represent the cumulative costs from the subcontract assist audits through the date shown. The amounts in this column and the Total claimed costs column are expected to be different due to timing differences in the prime versus subcontractor billing cycles or submissions of rate adjustment vouchers, subcontract fee or withholds, or different fiscal year end dates. At the completion of the subcontract closing actions, these two amounts should be the same.

- Accurate cumulative billing information is essential to determine over/under billing for CACWS and Final Invoices
- Contractor records of cumulative payments received should be compared to government payment office disbursement histories

- Quick closeout offers an alternative to holding contracts open until indirect cost rates are settled
- Quick closeout is a powerful tool to close the last FY of a multi-year contract
- ACOs should utilize quick closeout when there will be a delay in the settlement of final indirect rates and when it is applicable
- Frequently current billing rates are used as the quick closeout rates
- DCMA Quick Closeout Class Deviation authorizes ACOs to close contracts prior to the establishment of indirect cost rates

- FAR 42.708 states quick closeout procedures may be used if:
  - The contract is physically complete
  - The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant
    - The total unsettled indirect cost to be allocated to any one contract does not exceed \$1,000,000.
    - 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.
  - Agreement can be reached on a reasonable estimate of allocable dollars

- Once all contract terms and conditions are met, actual closeout can begin
- Action items to complete during the administrative closeout process are outlined within:
  1. FAR 4.804-5 – Procedures for closing out contract files
  2. DD Form 1597 – Contract Closeout Check-List
    - a. DD Form 1597 is not required on firm fixed price contracts and firm fixed price contracts with special closeout requirements



# Contract Closeout Process (cont'd)



CONTRACT CLOSEOUT CHECK-LIST <i>(Use a separate page to attach any comments.)</i>				1. CONTRACT NUMBER	
3. NAME OF CONTRACTOR				2. CONTRACT MODIFICATION NUMBERS (if applicable)	
5. ACTION ITEMS	6. MILESTONES/CALENDAR MONTHS AFTER PHYSICAL COMPLETION <i>(FAR 4.804-1)</i>	7. FORECAST COMPLETION DATE <i>(YYYYMMDD)</i>			8. DATE ACTION COMPLETED <i>(YYYYMMDD)</i> <i>(NA if not applicable)</i>
		Category 2	Category 3	Category 4	
a. DISPOSITION OF CLASSIFIED MATERIAL COMPLETED					
b. FINAL PATENT REPORT SUBMITTED <i>(Inventions Disclosures)</i> DD 882					
c. FINAL ROYALTY REPORT SUBMITTED					
d. FINAL PATENT REPORT CLEARED <i>(Inventions Disclosures)</i>					
e. FINAL ROYALTY REPORT CLEARED					
f. ISSUANCE OF REPORT OF CONTRACT COMPLETION					
g. NO OUTSTANDING VALUE ENGINEERING CHANGE PROPOSAL <i>(VECP)</i>					
h. PLANT CLEARANCE REPORT RECEIVED DD 1593					
i. PROPERTY CLEARANCE RECEIVED DD 1593					
j. SETTLEMENT OF ALL INTERIM OR DISALLOWED COSTS <i>(DCAA Form 1)</i>					
k. PRICE REVISION COMPLETED					
l. SETTLEMENT OF SUBCONTRACTS BY THE PRIME CONTRACTOR					
m. PRIOR YEAR OVERHEAD RATES COMPLETED					
n. CONTRACTOR'S CLOSING STATEMENT RECEIVED					
o. FINAL SUBCONTRACTING PLAN REPORT SUBMITTED					
p. TERMINATION DOCKET COMPLETED DD 1593					
q. CONTRACT AUDIT COMPLETED					
r. CONTRACTOR'S CLOSING STATEMENT COMPLETED					
s. FINAL VOUCHER SUBMITTED SF 1034					
t. FINAL PAID VOUCHER RECEIVED SF 1034					
u. FINAL REMOVAL OF EXCESS FUNDS RECOMMENDED					
v. ISSUANCE OF CONTRACT COMPLETION STATEMENT <i>(Or MILSCAP Format Identifier PK-9)</i>	6	36	20		
w. OTHER REQUIREMENTS COMPLETED <i>(Specify)</i>					
9. RESPONSIBLE OFFICIAL					
a. TYPED NAME <i>(Last, First, Middle Initial)</i>			b. TITLE		
c. SIGNATURE <i>(Sign only upon completion of all actions)</i>				d. DATE SIGNED <i>(YYYYMMDD)</i>	

DD FORM 1597, APR 2000

PREVIOUS EDITION MAY BE USED.

Reset

Adobe Professional 8.0

# Contract Closeout Process (cont'd)

- ✓ Disposition of classified material completed
  - All classified documents must be dispositioned in accordance with Government security regulations and accounted for by the Contractor
  - DD Form 254, DoD Contact Security Classification Specification (also for subcontractors)
  
- ✓ Final patent report submitted and cleared
  - If contract contains patents right clause FAR 52.227-11 or 13, a final patent report must be submitted within 3 months after physical completion
  - DD Form 882, Report of Inventions and Subcontracts

# Contract Closeout Process (cont'd)



- ✓ Final royalty report submitted and cleared
  - If the contract contains a refund of royalties clause, FAR 52.227-9, a final royalty report must be submitted by the Contractor stating the royalties paid or required to be paid. Must be submitted before final contract payment
  
- ✓ No outstanding value engineering change proposal (VECP)
  - If the contract contains the value engineering clause, FAR 52.248-1, then verify no outstanding VECPs require payment or disposition

# Contract Closeout Process (cont'd)



- ✓ Plant clearance report received
  - DD 1593, Contract Administration Completion Record, or other
  
- ✓ Property clearance received
  - Government property provided to the Contractor and not consumed must be dispositioned at the end of the contract
  - DD 1593, Contract Administration Completion Record, or other
  
- ✓ Settlement of all interim or disallowed costs
  - DCAA Form 1, Notice of Contract Costs Suspended and/or Disapproved
  
- ✓ Price revision completed

# Contract Closeout Process (cont'd)



- ✓ Settlement of subcontracts by the prime Contractor
  - All of the prime's subcontracts must be paid and closed prior to prime contract closeout completion
  
- ✓ Prior year overhead rates completed
  - FAR 52.216-7 requires the contract to submit a final indirect cost proposal within 180 days of the close of its fiscal year. All applicable indirect costs and overhead rates must be negotiated or established prior to submitting a final voucher

# Contract Closeout Process (cont'd)



- ✓ Termination docket completed
  - All open actions and liabilities must be resolved. The government may terminate a contract for default or convenience at any time
  - DD 1593, Contract Administration Completion Record, or other
  
- ✓ Contract audit is completed
  - DCAA performs an audit to determine if Contractor cost are reasonable, allocable to the contracts in accordance with GAAP, CAS, Government statute or FAR Part 31
  - Based on the DCAA audit report, the ACO negotiates the final overhead rates for the Contractors

# Contract Closeout Process (cont'd)

- ✓ Contractor's closing statement completed
- ✓ Final voucher submitted
  - Contractor submit a completion invoice or voucher (SF 1034) for final payment within **120 days**.
  - Final voucher reflects the settled amounts and rates.
  - FAR 42.705 states the right of the CO to unilaterally determine the final contract payment when the contract does not submit within the time specified in the contract.
  - “Contract completion package” also includes the release of claims, which is a signed record from the Contractor stating the Government is released from all liabilities, demands, obligations, and claims on the contract.

# Contract Closeout Process (cont'd)



- ✓ Final paid voucher received
  - DCAA audits final voucher (if Contractor does *not* submit CACWS)
  - ACO approves final voucher
  - DFAS issues final payment
- ✓ Final removal of excess funds recommended
  - Any excess funds will be removed from the contract by a PCO/ACO issued contract modification
  - ACO reconciles contract obligation and payment records





- Maintain complete and accurate payment history
  - Compare to government payment office records for final invoice preparation
- Timely submission of all Contractor requirements:
  - Submit ICP six months after fiscal year end
  - True up all interim vouchers 60 days after rates are settled
  - Close all subcontracts early
  - Once overhead rates are settled, prepare final voucher within 120 days
- Identify any contracts that may be qualified for Quick Closeout
- Utilize available Government guidance:
  - DCMA Contract Closeout Checklist
  - DCAA CACWS
  - DCMA Contract Closeout Guidebook
  - DFAS Payment History Data

# Contact Information



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