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THESIS

**APPLYING CONTINUOUS PROCESS
IMPROVEMENT TO THE CONTRACT
CLOSEOUT PROCESS**

by

Daniel J. Motherway

December, 1993

**Thesis Advisor:
Associate Advisor:**

**Rebecca J. Adams
Sterling Sessions**

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The purpose of this study is to streamline the contract closeout process through the application of continuous process improvement techniques. A methodology for the identification of procedures involved in the process and problem areas in the process was developed. Available literature was reviewed and personal interviews were conducted to develop a model of the contract closeout process and to identify problems in the contract closeout process. Continuous Process Improvement procedures were applied to the contract model and the problems identified to eliminate the problems and increase the efficiency of the process. Recommendations included: increasing the priority placed on the close out of U. S. Government contracts, development of an automated system for the close out of U. S. Government contracts, development of a training program in the contract closeout process, improvement of communications between organizations involved in the contract closeout process, and application of continuous process improvement procedures to reduce the time required to close out U. S. Government contracts.

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**APPLYING CONTINUOUS PROCESS IMPROVEMENT
TO THE CONTRACT CLOSEOUT PROCESS**

by

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Submitted in partial fulfillment
of the requirements for the degree of

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from the


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I. INTRODUCTION

A. PURPOSE

There is no single DOD or U. S. Government-wide procedure for closing out contracts although a few Commands have developed checklists for internal use, but no comprehensive written procedure could be found. Consequent delays in the close out of such contracts run into months and years with millions of U. S. Government procurement dollars being tied up in the process. Some of the principal impediments to the closeout process include: (1) expiration of funds and the difficulty of obtaining current year funds, (2) old invoices with no record of payment, (3) lost records, (4) delays caused by limited manpower and low priority, (5) delays caused by the Defense Contract Audit Agency (DCAA), (6) delays caused by the contractor, (7) claims, (8) problems with the paying office, (9) problems with U.S. Government furnished property, and (10) litigation.

Before a contract can be closed out and retired to the archives, a process must be executed. This action requires a number of administrative decisions by both the U. S. Government and the contractor. A contract is fully completed only when it is both physically and administratively completed. Timely and efficient close out of contracts: (1) ensures all contractual obligations have been fulfilled and

the interests of the U. S. Government have been protected, (2) identifies incomplete actions that may have been overlooked, (3) keeps office files reduced to current active contracts, (4) permits the early identification and deobligation of excess unliquidated funds, and (5) provides a complete record of all contractual actions taken by the Contracting Officer.

Research into the closeout process will be conducted to develop a model of the process (Appendix A). Problems in the process will then be identified. Total Quality Management procedures and techniques will then be applied to the model to suggest ways to improve the process.

B. OBJECTIVES

The primary objective of this thesis is to develop a system of continuous improvement as applied to the contract closeout process in order to reduce the time involved and Government funds tied up in closing out Government contracts. Secondary objectives will include determining variations in the system and methods of improving the process so these variations are in control and the process is more efficient.

C. RESEARCH QUESTIONS

Primary Question: How might the contract closeout process within the Department of Defense be streamlined and what would a model of the process look like?

Secondary Questions:

1. What are the critical factors in the contract closeout process?
2. What are the critical steps in the contract closeout process?
3. What steps can be consolidated or eliminated in the contract closeout process applying continuous process improvement?
4. What are the principal problems in the closeout process and what steps can be taken to eliminate these problems?
5. What steps would be part of a model of the contract closeout process?

D. SCOPE OF THE THESIS

This study reviewed previous studies of the contract closeout process and existing literature to model the process. Research was conducted using Total Quality Management principles and techniques in order to apply these to the contract closeout process. A questionnaire was developed and used in interviews with Department of Defense contracting organization personnel. The study was generic to all contracts, not focusing on particular contract types. The primary focus was to identify problem areas in the closeout process, develop procedures to overcome these problems and develop a streamlined contract closeout process.

E. METHODOLOGY

1. Review of existing information on the contract closeout process, including information from several custom bibliographies from the Defense Logistics Studies Information Exchange (DLSIE).
2. A questionnaire was developed and used in interviews with selected Department of Defense contracting organization personnel in seeking specific information on the contract closeout process and suggestions on improving the process.
3. Information was gathered and evaluated.
4. The existing contract closeout worksheet was reviewed and evaluated to determine possible methods of streamlining.
5. A standard format contract closeout model was developed from the information gathered and the evaluations conducted.

F. ORGANIZATION

The research is divided into five chapters. In this chapter, the objectives of the research have been set forth, the scope and direction of the effort identified and the methodologies for data collection presented.

Chapter II provides a basic framework for the closing of Government contracts and an explanation of the continuous improvement process. It will include definitions of terms used in both processes.

Chapter III discusses the collection and presentation of data, Chapter IV analyzes the data, and Chapter V summarizes the results of the research and presents conclusions and recommendations, answers the research questions and recommends areas for further research. Appendix A presents a complete model of the contract closeout process and Appendix B is a flowchart of the process.

II. BACKGROUND

A. INTRODUCTION

Contract closeout is the final stage of the contract administration phase of the contracting process. The closeout process ensures all actions started during earlier phases of the contracting process have been completed by both the contractor and the U. S. Government [Ref. 1]. The closeout process begins when the contract is terminated or when the contractor delivers and the U. S. Government accepts the supplies or services. A contract is "closed out" when the products or services have been delivered or completed and all administrative actions from both the contractor and the U. S. Government have been completed. No contract can be closed out while it is in litigation, while termination actions are pending or while the Armed Services Board of Contract Appeals (ASBCA) or the General Services Board of Contract Appeals (GSBCA) has an appeal pending.

The office administering the contract is responsible for initiating the contract closeout process. Many administrative actions and documents are required from both the contractor and the U. S. Government. On the larger contracts the efforts of several activities must be coordinated by the administering office.

B. DEFINITIONS

The following are definitions for terms used in discussion of the contract closeout process and the Continuous Process Improvement Method:

1. ADMINISTRATIVE CONTRACTING OFFICER (ACO)

A Contracting Officer (CO) who is administering contracts. (FAR 2.101), (Formal ACO designations are not made by all agencies.) An Administrative Contracting Officer does most of his or her work after the Procuring Contracting Officer (PCO) has awarded the contract but generally does not have the authority to enter into modifications. An ACO functions at and through a contract administration office and performs contract administration functions involving, among other things, contractors' employee compensation structures and insurance plans, post-award orientations, forward pricing rate agreements, advance agreements, allowable costs, disputes, Cost Accounting Standards (CAS), progress payments, cost overruns, modifications, traffic management, tax exemption and duty-free entry certificates, labor relations, quality assurance, safety requirements, property administration, engineering surveillance, acceptance and rejection of waivers and deviations, value engineering programs, contractor purchasing system review, consent to subcontracts, and monitoring of small business subcontracting plan compliance. (FAR 42.302) [Ref. 2: p. 11]

2. ACQUISITION STREAMLINING

Effort of a procuring agency that results in more efficient and more effective use of resources to design, develop, produce, or deploy quality systems (FAR 7.101). The objective of acquisition streamlining is to reduce the time and cost required for acquiring systems and to improve the quality of those systems by ensuring that solicitations and contracts contain only those necessary specifications, standards, and related documents that have been tailored for application at the most appropriate time in the acquisition cycle (FAR 10.002).

3. CLAIM

A written demand or assertion by one of the contracting parties seeking, as a matter of right, the payment of money, the adjustment or interpretation of contract terms, or other relief arising under, or relating to, the contract (FAR 33.201). A claim arising under a contract is a claim that can be resolved under a contract clause providing for relief sought by the claimant; a claim relating to a contract is one for which no specific contract clause provides such relief. However, a written demand or assertion by the contractor seeking the payment of money exceeding \$50,000 is subject to the Certification of Claim requirement of the Contract Disputes Act (CDA) of 1978 and Federal Acquisition Regulation (FAR) 33.207. A voucher, invoice, or other routine

request for payment that is not in dispute when submitted is not a claim [Ref. 2:p. 72].

4. CLAIMS COURT (CL. Ct.)

A court of the United States established especially to hear and decide legal claims against the U. S. Government. Its basic jurisdiction is conferred by 28 U.S.C. 1491, but it has a variety of additional jurisdictional statutes. Under the Contract Disputes Act (CDA) of 1978, 41 U.S.C. 601-613, as amended, this court shares concurrent jurisdiction with the Boards of Contract Appeals (BCAs) over U. S. Government contract disputes (each contractor appealing a Decision of the Contracting Officer must elect either the agency BCA or the Claims Court). The other jurisdiction of the Claims Court most relevant to Government procurement concerns protests (preaward only), 28 U.S.C. 1491(a)(3), disputes concerning fraud or forfeiture, 41 U.S.C. 604 and 28 U.S.C. 1491, and patent and copyright disputes, 28 U.S.C. 1498. The Federal Courts Improvement Act of 1982 created the Claims Court from the Trial Division of the Court of Claims [Ref. 2:p. 73].

5. CLOSEOUT

The process of settling all outstanding contractual issues to ensure that each party has met all of its obligations, and documenting the contract file accordingly. The primary objectives of contract closeout are: (1) to identify and resolve, before memories fade, any uncompleted

obligations or pending liabilities on the part of either the U. S. Government or the contractor and (2) to ensure that contract-related decisions and actions have been properly documented. FAR 4.804 provides instructions for the closeout of contract files.

6. CONTRACTING OFFICER (CO)

An employee of the U. S. Government with the authority to legally bind the U. S. Government by signing a contractual instrument. FAR 2.101 defines a contracting officer as a person with the authority to enter into, administer, and/or terminate contracts and make related Determinations and Findings (D&Fs). It then states: "The term includes certain Authorized Representatives of the contracting officer acting within the limits of their authority as delegated by the contracting officer." There are three types of contracting officers, each with different responsibilities in contract procurement, management, and execution. A purchasing or Procuring Contracting Officer (PCO) has authority to enter into a contract, an Administrative Contracting Officer (ACO) administers the performance of the contract, and a Termination Contracting Officer (TCO) is responsible for contract termination. Each must make determinations and findings related to his or her area of contract management (FAR 1.602-1). Contracting officers are responsible for ensuring performance of all necessary actions for effective

contracting, ensuring compliance with the terms of the contract, and safeguarding the interest of the Government in its contractual relationships (FAR 1.602.2). Contracting officers are appointed in writing, on a Standard Form 1402, Certificate of Appointment (or WARRANT). (FAR 53.301) In selecting contracting officers, the appointing official must consider the complexity and dollar value of the acquisitions to be assigned and the candidates' training, education, business acumen, judgment, character and reputation.

7. CONTRACTOR

Usually used to denote a party that enters into a contract with the U. S. Government. However, the term may be applied to any individual or other legal entity that directly or indirectly submits offers for or receives a Government contract, that may reasonably be expected to submit offers for or receive a Government contract, or that conducts business (or may reasonably be expected to conduct business) with the U. S. Government as an agent or representative of another contractor (FAR 9.403). With regard to subcontracting, "contractor" (i.e., prime contractor) means the total contractor organization or separate entity of it (such as an affiliate, division, or plant) that performs its own purchasing (FAR 44.101). Both the prime contractor and any subcontractor are defined as contractors for the purposes of

equal employment opportunity (FAR 22.801) and Service Contract Act (FAR 22. 1001) compliance [Ref. 2:p. 98].

8. CONTRACT SPECIALIST

An employee of a contracting activity in the GS-1102 personnel series. This series also includes procurement analysts, contract negotiators, cost/price analysts, and contract administrators. This series of employees forms the pool that is the main source of contracting officers.

9. PACKARD COMMISSION

The popular name of the President's Blue Ribbon Commission on Defense Management, which published its final report, A Quest for Excellence, in June 1986. Chaired by David Packard, the Commission made a number of significant recommendations on reorganizing the Joint Chiefs of Staff, the defense command structure, and the defense acquisition process, including creating the position of Under Secretary of Defense for Acquisition. The Commission's Acquisition Task Force suggested (1) streamlining acquisition organization and procedures, (2) using technology to reduce costs, (3) balancing cost and performance, (4) stabilizing programs, (5) expanding the use of commercial products, and (6) enhancing the quality of acquisition personnel. The Commission's preliminary report was called, A Formula for Action: A Report to the President on Defense Acquisition.

10. PROCURING CONTRACTING OFFICER (PCO)

A Contracting Officer (CO) in the Government's buying office who enters into contracts and signs them on behalf of the U. S. Government. This term is used by DoD and other major agencies. In such agencies, after contract execution, an Administrative Contracting Officer (ACO) typically assumes responsibility for contract administration. Generally, a PCO is responsible for creating and publicizing the solicitation, selecting the source, negotiating and executing the contract, negotiating and executing certain contract modifications, determining whether exceptions to requirements for submission of certified cost or pricing data apply and settling certain defective pricing issues. A PCO will not normally be involved in a contract termination (usually handled by a Termination Contracting Officer (TCO)). In many agencies, particularly those with decentralized contracting offices, all of the contracting officer functions are handled by the same person [Ref. 2:p. 310].

11. PROGRAM MANAGER (PM)

The individual tasked with managing a system acquisition (typically a major system acquisition) program, PMs are tasked with developing acquisition strategies, promoting full and open competition, and sustaining effective competition between alternative major system concepts and sources (as long as it is economically beneficial and

practicable do so) (FAR 34.004). In DoD the PM is responsible to the Program Executive Officer (PEO) and reports directly to the PEO on all program matters [Ref. 2:p. 313].

12. PROPERTY ADMINISTRATOR

An authorized representative of the Contracting Officer (CO) assigned to administer contract requirements and obligations relating to Government property (FAR 45.501).

13. TOTAL QUALITY MANAGEMENT (TQM)

A philosophy and set of guiding principles that are intended to be the foundation of a continuously improving organization by encouraging employees to focus their attention on means of improving efficiency. TQM has been adopted by DoD to improve quality. It is the application of human resources and quantitative methods to improve: (1) the materials and services supplied to an organization, (2) all the processes within an organization, and (3) the degree to which the needs of the customer are met, now and in the future. TQM integrates fundamental management techniques, existing improvement efforts, and technical tools within a disciplined approach focused on continuous process improvement.

14. CONTINUOUS PROCESS IMPROVEMENT (CPI)

Improving the cost effectiveness and efficiency of a process by continuously looking for ways to improve the

process. The wants and needs of the customer are determined and the actual output or the result of the process is matched to this. The job of process manager is to match the two.

C. CONTINUOUS PROCESS IMPROVEMENT

1. Background

Over the years, various approaches to problem solving have been proposed. Some of these approaches include: Quality Improvement Process, Team-Oriented Problem Solving, Creative Problem Solving, Analytical Problem Solving, Breakthrough Process and the like. While each has particular strengths, each also has particular weaknesses. All of them require a "problem" to solve. Fortunately, for the problem-solving-industry, there is no shortage of problems! Unfortunately for the rest of us, just solving problems, or reducing waste, or eliminating defects will not make us competitive in this new economic age.

The basic idea behind continuous process improvement is to watch for ways to improve the process you are using. It is not enough to correct problems as they arise, we must watch for ways that the process can be improved as the process operates and use these ideas to improve the process. We do not do this just once and forget about it, we continue to look for ways to improve the new process after the improvements have been made to the old process.

2. Shewhart's Cycle

Integral to the continual improvement process is what the Japanese call the Deming Wheel, Shewhart's Cycle or the Plan-Do-Check-Act Cycle. We can define the Shewhart Cycle through a series of action steps.

I. PLAN:

Develop a Plan to Improve

- Step 1: Select the process or issue.
- Step 2: Create a purpose statement.
- Step 3: Empower a team.
- Step 4: Define the process.
- Step 5: Gather data.
- Step 6: Control variation.
- Step 7: Plan for improvement.

II. DO:

Carry Out the Plan

- Step 8: Approve the plan.
- Step 9: Implement pilot projects.

III. CHECK:

Check the Results

- Step 10: Verify improved performance.
- Step 11: Validate costs and benefits.

IV. ACT:

Adjust the Process, based on your new knowledge.

- Step 12: Establish new procedures and policies.
- Step 13: Standardize improvement.
- Step 14: Manage change.
- Step 15: Leverage improvement. [Ref. 3:p. 80-87]

The Deming Cycle is used to develop a plan for the improvement. The first step in the cycle is the identification of an opportunity for improvement. This identification can come from management personnel or from the personnel actually doing the work in the process. According to Dr. Deming, 85% of defects in products are a result of process problems and only 15% are a result of problems caused by personnel in the process [Ref. 3:p. 19]. This should tell management that the main focus of any improvement process should at least start with ideas to improve the process.

Support of top management is not sufficient. It is not enough that top management commit themselves to quality and productivity. They must know what it is that they are committed to. These obligations cannot be delegated. Support is not enough: action is required.

Short-term profits are not an accurate index of managerial ability. Short-term profits can be manipulated by management personnel. Top management personnel can pay dividends, defer maintenance, cut research budgets, or acquire another company to manipulate short-term profits.

The continuous improvement process is based on one of Dr. Deming's 14 points. The 14 points and removal of the deadly diseases and obstacles furnish a method for improvement.

3. Dr. Deming's 14 Points for Management

The 14 points are the basis for transformation of industry. It will not suffice merely to solve problems, big or little. Adoption and action on the 14 points are a signal that management intends to stay in business and aims to protect investors and jobs. Such a system formed the basis for lessons for top management in Japan in 1950 and in subsequent years.

The 14 points apply anywhere, to small organizations as well as to large ones, to the service industry as well as to manufacturing. They apply to a division within a company. A synopsis of Deming's 14 points are as follows:

1. Create constancy of purpose toward improvement of product and service, with the aim to become competitive and to stay in business, and to provide jobs.

2. Adopt the new philosophy. We are in a new economic age. Western management must awaken to the challenge, must learn their responsibilities, and take on leadership for change.

3. Cease dependence on inspection to achieve quality. Eliminate the need for inspection on a mass basis by building quality into the product in the first place.

4. End the practice of awarding business on the basis of price tag. Instead, minimize total cost. Move toward a single supplier for any one item, on a long-term relationship of loyalty and trust.

5. Improve constantly and forever the system of production and service, to improve quality and productivity, and thus constantly decrease costs.

6. Institute training on the job.

7. Institute leadership. The aim of supervision should be to help people and machines and gadgets to do a better job. Supervision of management is in need of overhaul, as well as supervision of production workers.

8. Drive out fear, so that everyone may work effectively for the company.

9. Break down barriers between departments. People in research, design, sales, and production must work as a team, to foresee problems of production and end use that may be encountered with the product or service.

10. Eliminate slogans, exhortations, and targets for the work force asking for zero defects and new levels of productivity. Such exhortations only create adversarial relationships, as the bulk of the causes of low quality and low productivity belong to the system and thus lie beyond the power of the work force.

11a. Eliminate work standards (quotas) on the factory floor. Substitute leadership.

b. Eliminate management by objective. Eliminate management by numbers, numerical goals. Substitute leadership.

12a. Remove barriers that rob the hourly worker of his right to pride of workmanship. The responsibility of supervisors must be changed from sheer numbers to quality.

b. Remove barriers that rob people in management and in engineering of their right to pride of workmanship. This requires the abolishment of the annual or merit rating and of management by objective.

13. Institute a vigorous program of education and self-improvement.

14. Put everybody in the company to work to accomplish the transformation. The transformation is everybody's job
[Ref. 4:p. 23].

4. Continual Improvement

The continual improvement concept is built on the fifth of Dr. Deming's fourteen points: Improve constantly and forever the system of production and service. Every product should be regarded as one of a kind; there is only one chance for optimum success. Teamwork in design is fundamental. There must be continual improvement in test methods and ever better understanding of the customer's needs and of the way he uses and misuses a product.

The quality desired starts with the intent, which is fixed by management. The intent must be translated into plans, specifications, and tests, in an attempt to deliver to the

customer the quality intended, all of which are management's responsibility.

Downstream, there will be continual reduction of waste and continual improvement of quality in every activity of procurement, transportation, engineering, methods, maintenance, locations of activities, sales, methods of distribution, supervision, retraining, accounting, payroll, and service to customers. With continual improvement, the distributions of the chief quality-characteristics of parts, materials, and service become so narrow that specifications are lost beyond the horizon.

Mere allocation of huge sums of money for quality will not bring quality. There is no substitute for knowledge. Everyone might as well ask himself every day what he has done this day to advance his learning and skill on this job, and how he has advanced his education for greater satisfaction in life [Ref. 5].

Never-ending improvement in manufacturing means continual work with vendors and eventual reduction to one vendor and one shipping point for any one item (Point 4).

Improvement of the process includes better allocation of human effort. It includes selection of people, their placement, their training, to give everyone, including production workers, a chance to advance their learning and to contribute the best of their talents. It means removal of

barriers to pride of workmanship both for production workers and for management and engineers (Point 12).

Putting out fires is not improvement of the process. Neither is discovery and removal of a special cause detected by a point out of control. This only puts the process back to where it should have been in the first place.

The cause of a fault that appears periodically or seems to be associated with some recurring event is usually easy to trace. Periodic appearance of any characteristic should be traced.

Adjustment of a process that is in statistical control, initiated on appearance of a faulty item or a mistake, as if it arose from an obvious immediate cause, will only create more trouble, not less. Specification limits are not action limits.

Improvement of a process may require study of records to learn more about the effects of changes in temperature, pressure, speed, and change of material. Engineers and chemists, aiming to improve the process, may introduce changes and observe the effects. The next section will look at some of these records, personnel, files and other documentation involved in the contract closeout process.

D. PERSONNEL, FILES AND FORMS INVOLVED IN THE CONTRACT CLOSEOUT PROCESS

This section will discuss the people and the various files involved in the process and the part they play. Personnel involved in the contract closeout process include:

1. **CONTRACTING OFFICER (CO)** - This can be either the PCO or ACO depending on the context and subject discussed. I will use the PCO for the buying activity CO and ACO for the field contract administration CO. The FAR doesn't use PCO only CO and ACO.

2. **PROCURING CONTRACTING OFFICER (PCO)** - The PCO is the person who "opens" the contract originally and it is the PCO who "closes" the contract at the end. The closing of the "contracting office contract files" can only be done at the buying activity. On occasion the PCO may designate someone else in his or her office as the "responsible official" to close files. The point is the ACO doesn't close files, and the PCO is ultimately responsible for any errors or omissions in the "contracting office files" once closed. The ACO is responsible, if delegated, for errors or omission in the "administrative office contract files" and the finance officer for any errors or omissions in the "paying office contract files." Together these two or three files form what used to be called the "Total File" or "Case File" on the contract.

3. **ADMINISTRATIVE CONTRACTING OFFICER (ACO)** - This is the person who receives a delegation of authority from a PCO to do specific tasks in administration of a Government contract. Regarding closeout, the ACO must create a "contract administration office files" in accordance with FAR 4.8 and DFARS 204.8 "Contract Files" (and all supplemental regulations of their activity). When the contract is physically complete the ACO (if delegated) begins the process of closing out the contract. The closing of the ACO files should be coordinated with the PCO who will begin to review his/her files for closeout. A DD Form 1597 "Contract Completion Checklist" (manual or automated) with estimated dates for all milestones should be available to the PCO. While providing the PCO with the DD 1597 "Contract Completion Checklist" is advisable it is not required by FAR or DFARS. A very recent change to the DFARS (DAC #88-6, 204.804-4 Physically Completed Contracts) requires ACOs to provide the PCO with a DD 1594 "Contract Completion Statement" partially filled out (through Line 8) to provide notice to the PCO that the contract is physically complete (Reference DFAR 204.804-4). Then when all the applicable "squares have been filled" on the DD 1597 "Contract Completion Checklist", the ACO would then fill out the DD 1594 "Contract Completion Statement" again, but this time fill it out through line 9; please note the ACO never fills out the complete form. The ACO will establish the date of closeout in block 9d of the DD 1594. The date established by the ACO

(Block 9d) will be the date of closeout; unless the PCO is unable to close his/her files within 90 days. This is why early communication is necessary to avoid catching the PCO without enough time to close his/her files in 90 days. So while the ACO files are physically separate from the PCO files they are not duplicate files, but when combined with the "paying office files" (which close independently upon final payment) form the complete Government "contract file."

The responsibility for closing out contracts in accordance with the "time standards" (FAR 4.804-1) falls upon the PCO who may delegate this to the ACO. So it is usually the ACO who must meet the FAR 4.804-1 "time standards" and take the "heat" if they become "overage." Once the ACO completes the DD 1594 "Contract Completion Statement" (through block 9) the "heat" is on the PCO to close his/her files within the 90 days discussed previously. Thereafter it becomes the PCO's problem and he or she must take the "heat" for overage contracts. There are many reasons why a contract may become overage, but we won't cover them here. I will state that timely closeout has received a great deal of attention since about 1987. The primary reason being the release of excess funds from the contracts. The issue of closeout can create tension between the buying and administration offices for a variety of reasons. A better understanding of both the PCO and ACO responsibilities can ease these tensions and resolve potential problems.

4. **CONTRACT SPECIALIST** - This is usually the PCO's assistant at the buying activity. Often it is the contract specialist who does most of the work, along with the procurement clerks, on closing contracts at the buying activity. Their counterpart at the ACO's office is the contract administrator, and their procurement clerks. Since in reality closeout is a very low prestige job in the contracts world "almost" everything but signing the DD 1594 is done by buyers, contract administrators and procurement clerks. A current trend is to create special closeout branches at both buying and administrative activities to handle closing contracts, manage the contract files, stage files and transmit files to Federal Record Centers.

5. **CONTRACT ADMINISTRATOR (CA)** - This is usually the ACO's assistant at the administration activity (See above for additional details).

6. **PROCUREMENT CLERKS** - Procurement clerks can be found at either buying or administrative activities. These are people who assist the buyers/CAs or PCOs/ACOs in the more routine tasks associated with contracting. Closeout is usually one of these tasks. The clerks will send out requests for "action items" needed to close out the office's contracts. They will issue and monitor suspense files, they update the DD

Form 1597 checklists as the actions are completed and prepare the various forms used to close out files.

7. **TERMINATION CONTRACTING OFFICER (TCO)** - The TCO is involved in the closeout process only when a termination is involved. The TCO and ACO "share" the responsibilities for closeout. How they share them is dependent upon a variety of factors. Consult your agency regulations to see who's responsible for what. Just remember do not close a contract with an unsettled termination in the works [Ref. 2:p. 395].

8. **FINANCE OFFICER** - The finance officer is responsible for paying the contractor and creating, maintaining and closing the "paying office contract file." As mentioned previously, the paying office contract file requirements are found at FAR 9.803(c)(1) through (9). This file closes independently from the PCO and ACO's files after final payment. Defense Finance and Accounting Service (DFAS) is the primary paying office in DoD.

9. **CONTRACTOR** - The contractors are the organizations, civilian or Government, that form contracts with the U. S. Government to deliver goods or perform services. The contractor is required to keep many records for a wide variety of purposes because of contractual requirements, public laws, etc. None of the guidance in FAR 4.8 or DFARS 204.8 is

etc. None of the guidance in FAR 4.8 or DFARS 204.8 is applicable to contractor files. Do not confuse the contractor files with "Contractor General files" which are government files kept on the contractor. Regarding closeout, the contractor must submit a Contractor's Closing Statement at the conclusion of each contract which includes: (1) Final Voucher/Invoice, (2) Completion Statement, (3) Release of Claims and (4) Assignment of Refunds, Rebate and Credits. Also the contractor may at some later time pursue litigation (eg. claim) against the Government. It is at this time that the Government lawyers will want to look at the "contract file."

10. **LEGAL/STAFF JUDGE ADVOCATE** - The Government's lawyers are involved in many stages of the contracting process and closeout is no exception. As mentioned previously the lawyers at the buying activity must issue a clearance letter on any final patent or royalty reports. The other time they are involved is when the contractor pursues litigation after contract closeout. As mentioned earlier the contractor signs a release of claims, but there are situations where the release would not hold up. There are statutes of limitation on filing claims and other legal actions. The reason behind the retention dates in FAR 4.805 directly relate to these statutes of limitation. After the statute of limitations has expired the Government cannot be brought into court so there

is no further reason to retain the files. It would be difficult, if not impossible, to defend a case where the "contract files" (any or all of them) were destroyed prematurely.

11. DEFENSE CONTRACT AUDIT AGENCY AUDITORS - The DCAA is involved in the closeout process in several ways. First they audit contractors' public vouchers on cost type contracts, to include the "final voucher" which is necessary for closeout. Next DCAA audits contractor rates for establishing "actuals" on cost type contracts or makes recommendations on "quick closeout rates." Also the DCAA may from time to time issue a DCAA Form 1 against a contractor. When one of these forms is outstanding no cost type contracts can be closed until the issues are settled.

12. PROPERTY ADMINISTRATORS (PA) - The PA has a limited warrant relative to certain property related responsibilities. For closeout, the ACO must coordinate with the PA on the distribution of Government property used in the contract. Usually the DD Form 1593 "Contract Administration Completion Record" is used to coordinate with the PA. The DD 1593 would be sent to the PA from the ACO on contracts with full delegations and directly from the PCO on contracts with limited delegations. In the later situation the PCO is responsible for initiating closeout.

13. **PLANT CLEARANCE OFFICER** - Like the property administrator, the Plant Clearance Officer also holds a limited warrant. Coordination with the plant clearance officer is required, in addition to the property administrator, prior to completion of the DD 1593 "Contract Administration Completion Record." As discussed previously this would support the DD 1597 (items H & I) "Contract Closeout Checklist." The CO responsible for closeout may decide that these actions are not applicable to the current contract and not involve the property administrator or plant clearance officer. If in doubt when establishing the DD 1597 "Contract Closeout Checklist" whether any Government property (facilities, material, etc.) was provided, be sure to coordinate with both the plant clearance officer and property administrator, just to be safe.

14. **CONTRACT FILE** - "Contract Files" are discussed in FAR 4.8. The purpose of these files is to retain information that is "sufficient to constitute a complete history of the transaction for the purpose of -

- Providing a complete background as a basis for informed decisions at each step in the acquisition process;
- Supporting actions taken;
- Providing information for reviews and investigations; and
- Furnishing essential facts in the event of litigation."

But there are a lot of different or specialized contract files. The FAR provides for three broad categories of contract files. They include:

- A file for canceled solicitations;
- A file for each contract; and
- A file such as a contractor general file [Ref. 1:4.801].

The file for each contract is further broken down into:

- Contracting (Buying) Office Contract File
- Contract Administration Office (CAO) Contract File
- Paying (Finance) Office Contract File [Ref. 1:4.802]

Each of these files is defined later in this section, but most personnel should be familiar with these terms. The file for canceled solicitations and contractor general files are not usually broken down any further. Please note that the first broad category is for canceled solicitations therefore no contract file will result. Information from successful solicitations is handled in different ways. Usually the successful proposals are in the contract file, unsuccessful proposals are either:

- Filed separately and cross referenced to the contract awarded.
- If not voluminous they may be filed in with the resulting contract file.

The filing of unsuccessful proposals separately speeds up the process of their destruction by up to five years (FAR 4.805) and reduces the Government's costs for storage.

So we see that the term "contract files" is very broad in scope as used in the FAR and it encompasses more than the files for each contract awarded. Canceled solicitation files and contractor general files are also defined in FAR 4.8 as "contract files."

15. FILE FOR CANCELED SOLICITATIONS - Just like the name says these are buying office files where an award was not made on the basis of the solicitation, and resulting proposals, in the file. Please note that often solicitations are canceled, then modified and reissued. If this is the case, you may want to cross-reference (DD Form 1592) this file to the successful award file of the follow-on solicitation. These "contract files" are not closed like buying office or administrative office files for successful contract awards. They are also retained for a shorter period of time; FAR 4.805 states the retention period is "five years after cancellation."

16. CONTRACTOR GENERAL FILES - This file consists of correspondence, reports, and other documents relating not to a specific contract but to several contracts or to the contractor generally (e.g., concerning any general aspect of his capabilities, performance, procedures, or operations).

The buying and/or administrative offices may have contractor general files. This file would include, as applicable; pre-award surveys, reports, correspondence, and other records documenting the contractor's capabilities, past performance, accounting system, pricing method, quality assurance procedures, labor policies, insurance programs, equal opportunity and comparable policies, programs and systems that serve as a general source of information on a contractor's current and future capability or responsibility.

These files are retained, per FAR 4.805, "until superseded or obsolete," but should be reviewed yearly. These files are not "closed" unless a company goes out of business and then it would be the CO's judgment as to whether to retain or dispose of the file. For larger contractors who do business with the Government on a continuing basis the file may stay open forever with the materials being updated on a yearly basis, adding new information and disposing of old or outdated information.

17. CONTRACTING OFFICE CONTRACT FILE - Per FAR 4.802(a):

"The contracting office contract file, which shall document the basis for the acquisition and the award, the assignment of contract administration (including payment responsibilities), and any subsequent action taken by the contracting office." The FAR also prescribes in detail the contents for the "contracting office contract file" in FAR

4.803(a)(1), through (41). Remember that a "contracting office contract file" may also include the items listed in FAR 4.803(b) (1) through 20 "contract administration office contract file" and 4.803(c)(1) through (4) "Paying office contract file." This would occur where the buying office does not delegate and has its own internal finance office. But even if the buying office doesn't pay the contract they often administer the contract. While doing this the CO wears "two hats" the PCO and ACO and must cover all 67 items in FAR 4.803(a) & (b) as applicable.

When the contracting (buying) office delegates administration to the Defense Logistics Agency (DLA) or another agency for administration it sets up the creation of two sets of files on the same contract, not including the paying office file (and the contractor file). The closing of contracting (buying) office and administration office contract files are linked together whereas the paying office file closes independently of other files.

18. CONTRACT ADMINISTRATION OFFICE FILE - Per FAR 4.802(a)(2); "The contract administration office contract file, which shall document the basis for and the performance of contract administration responsibilities." In FAR 4.803(b) and DFARS 204.803(b) the specific items to be included in the contract administration office file are set forth. Basically it's the file maintained by the Contract Administration Office

(CAO) for use in administering the contract. But remember that during contract performance many official records may not be in the ACO's file such as; property, quality assurance, production, engineering, and purchasing system information. These may still be part of the "official" contract file if required by regulation. It is at closeout that these files may be put together the first time. The closing of the buying and administrative contract files are linked together by one form; the DD 1594 "Contract Completion Statement." This form will be discussed in detail later but it should be noted now that although the buying and administrative files are closed separately they close on the same date. This date is assigned by the ACO (if delegated). If the buying activity cannot close its files within 90 days of the administrative office then the ACO assigned closeout date in block 9d is superseded by the PCO assigned date in block 10e of the DD 1594. When this happens it is important that the PCO advises the ACO so the administrative files are not closed/staged/stored and destroyed early.

19. PAYING OFFICE CONTRACT FILE - Who ever pays amounts on the contract must maintain a file; FAR 4.803(c) states that the paying office contract file will contain:

- Copy of the contract and any modifications

- Bills, invoices, vouchers, and supporting documents
- Record of payments and receipts
- Other pertinent documents

This is a short list compared to the 41 items for buying offices and 20 items for CAOs. The finance office closes its files independently of the PCO and ACO files and does not coordinate the closing of its files with the COs. This is usually where original copies of DD 250s are maintained in the "contract file" along with progress payment or invoice/voucher payments. The paying office contract file is closed upon final payment.

20. **CONTRACTOR FILES** - Those files kept by the contractor on Government contracts. Specific requirements would be tied to public laws, contract language, or any systems incorporated by reference through contract language. The main point about contractor files, important for contract close out, is that many times the contracting officer can get copies of documents, which are lost or destroyed within the Government, for their contract files from the contractor.

21. **DD FORM 1597 "CONTRACT CLOSEOUT CHECKLIST"** - This is probably the first form the CO tasked with initiating contract closeout would fill out. This form lists the major "squares" to be filled in closing a contract. If you compare the DD

1597 and FAR 4.804-5(a)(1) through (15) requirements you will see they are almost the same. The DD 1597 format has a mechanized form in many computerized contract management systems; sometimes referred to as a mechanized DD 1597 or just Contract Closeout Checklist. A new version (Nov 88) of the form was incorporated into the DFARS in DAC #88-4 and makes previous versions obsolete. The CO tasked to initiate closeout will first review the contract for applicable action items on the DD 1597; not all items apply to every contract. The CO must use his/her knowledge of the contract to determine which items are applicable. Next, forecasted dates for completion are entered on the form or the computer. Normal closeout should take less than the time limitations in FAR 4.804-1 and indicated on line V of the DD 1597. From here a contract administrator or procurement clerk will follow-up on the action items until completed. Once all the appropriate squares are filled the responsible official (Block 9), usually the CO, signs and dates the DD 1597. It is then placed in the contract file (either by the PCO or ACO depending on who is closing the contract) as evidence that all those actions are complete.

22. DD FORM 1593 CONTRACT ADMINISTRATION COMPLETION RECORD - Referenced on the DD Form 1597, the DD 1593 is used as evidence by the CO of the completion of: (1) property, (2)

plant clearance, (3) contract termination, and (4) other administrative functions. It may be used by either the ACO or PCO. The PCO may have issued a delegation limited to property or termination settlement and would send the DD 1593 to the property administrator, plant clearance officer and/or termination contracting officer in the field as needed. If a full delegation was given, the cognizant ACO would use the DD 1593 as proof of completion of the appropriate functions (property, plant clearance etc.) and place the signed DD 1593 in the Contract Administration Office file to support the DD 1597 Checklist.

23. DD FORM 1594 CONTRACT COMPLETION STATEMENT - This form currently serves two functions in the closeout process. DFARS 204.804-4(a)(S-70) requires the ACO to notify the PCO, on the DD Form 1594, when the contract becomes physically complete (Refer to the DFARS for specifics). When used in this capacity the DD 1594 is called an Interim Contract Completion Statement (Notice of Physical Completion). The second function remains unchanged and this is the last form a cognizant ACO, or buying activity CO, would fill out in connection with closing a contract file. The form is signed by both the ACO and PCO, if delegated, and just the PCO if not delegated. If delegated the ACO fills out blocks 1-9 and signs block 9c. The date in 9d is the date of closeout,

except when the PCO cannot close his/her files within 90 days. In this case the PCO establishes the revised date in block 10e when the PCO signs in block 10d. When this happens the PCO shall communicate with the ACO to insure that both the buying and administrative files are closed on the same date. If the ACO doesn't receive any notice otherwise, the DD 1594 (with only the ACO signature) is authority to close the file.

E. THE CONTRACT CLOSEOUT PROCESS

The contract closeout process begins when the contract is terminated or when the contract is physically completed, contractor delivers and the Government accepts the supplies or services. The Federal Acquisition Regulation (FAR) lists detailed procedures for closing out contracts.[Ref 1] The office administering the contract must ensure that the following actions are completed:

1. Disposition of classified material is completed;
2. Final payment report is cleared;
3. Final royalty report is cleared;
4. There are no outstanding value engineering change proposals;
5. Plant clearance report is received;
6. Property clearance is received;
7. All interim or disallowed costs are settled;

8. Price revision is completed;
9. Subcontracts are settled by the prime contractor;
10. Prior year indirect cost rates are settled;
11. Termination docket is completed;
12. Contract audit is completed;
13. Contractor's closing statement is completed;
14. Contractor's final invoice has been submitted;
15. Contract funds review is completed and deobligation of any excess funds is recommended.

After these actions are complete, the contracting officer administering the contract ensures the contract completion statement is prepared and signed by the contractor.

The contract closeout process can be delayed for a variety of reasons. The process is not difficult, but it requires many administrative actions by both the contractor and the U. S. Government administering office. Several activities can be involved in the closeout effort and the actions of each must be coordinated by the administering office. The following were the problems most often identified in one report: 40%-Delays caused by limited manpower and low priority in the contracting office; 21%-Delays caused by the contractor; 17%-Delays caused by the DCAA; 15%-Delays caused by the paying activity; 7%-Other [Ref. 6:p. 32]. Of the 17% of delays caused by the DCAA, most were due to waiting for the DCAA to make a final determination on overhead rates. These cases

might have been handled using the Quick Closeout procedures from the FAR, assuming they meet the other qualifying criteria. The other category included delays due to unliquidated balances, claims and litigation.

The actual closeout of a contract is performed by the office administering the contract. Personnel involved in the closeout include the Procuring Contracting Officer (PCO) and the Administrative Contracting Officer (ACO), if one is assigned. The PCO and the ACO may be the same person for a specific contract. If the PCO delegates administrative functions to another activity, an ACO will be assigned. The PCO creates a contract by awarding it and is ultimately responsible for closing it, regardless of whether the administrative functions have been assigned to another activity. When an ACO is assigned to a contract, the ACO is responsible for administratively closing the contract. The ACO coordinates with all involved parties (Contractor, U. S. Government and DCAA if they are involved) and ensures that each has submitted the appropriate contract completion forms. When the ACO determines that the contract is physically and administratively complete, he/she certifies it and forwards it to the PCO for signature.

Who actually closes out contracts? Contract specialists and procurement clerks do the paperwork to closeout most

contracts. One survey obtained the following information when it asked who closes out contracts: 42%-The Contract Specialist who administers the contract; 26%-One or more Contract Specialists that are dedicated to closing out contracts; 10%-The Contract Specialist who awards the contract also closes the contract; 5%-The type and complexity of the contract determines who closes the contract; 17%-Other than Contract Specialists close out the contracts (procurement clerks, Navy Reserve Units or the PCO).[Ref. 7:p. 22]

F. TIME STANDARDS FOR CONTRACT CLOSURE [Ref. 1]

The FAR measures closeout timeframes from the date all the property was received or the services were completed. The FAR allows the following times to closeout contracts, based on contract type:

- Firm-Fixed-Price Contracts.....six months
(excluding small purchases)
- Contracts requiring settlement
of overhead rates.....36 months
- All other contracts.....20 months

G. ALTERNATE CLOSEOUT METHODS

Two alternate methods to the "normal" contract closeout process can be used to expedite the closeout process. Quick Closeout Procedures (QCP) are explained in FAR 42.708. QCPs allow the contracting officer to negotiate the settlement of

indirect costs, for a specific contract in advance of the determination of final indirect rates, under the following conditions:

- The contract is physically complete;
- The amount of the unsettled indirect costs to be allocated is relatively insignificant;
- An agreement can be reached on a reasonable amount of allocable dollars. [Ref. 1]

Navy Acquisition Regulation Supplement (NARSUP) 42.708 states that costs may be determined to be insignificant when they do not exceed either 15% of the total indirect costs incurred on the contract or \$500,000, whichever is less. DLA Manual 8105.1: 42.7-11 states that this procedure should be limited to small dollar balances or to instances where indirect costs applicable to any one DOD contract in one fiscal year do not exceed \$500,000.

Bilateral agreements can also be used to negotiate settlement of indirect cost rates when a contract has been terminated and the contract contains the clause 52.216-7, "Allowable Cost and Payment." Under these conditions the contracting officer can negotiate the amount of indirect costs for the contract period in which the rates have not been decided.

H. SUMMARY

The Department of Defense and the Navy in particular, do not closeout contracts efficiently. The process is not difficult, but actions are required of the contractor and the U. S. Government and the closeout process does not always go smoothly. Many reasons for the untimely close out have been presented in this report, including the most frequently cited reason, the low priority assigned to the closeout process.

III. DATA PRESENTATION

A. INTRODUCTION

This chapter presents the data collected by this researcher from personal interviews and review of previous research studies. Personal interviews were conducted with personnel at Department of Defense organizations that close out contracts as a normal course of their business.

Questions were asked to determine the following information:

- The practices currently used in closing out contracts;
- Principal problems in the contract closeout process;
- Participants in the contract closeout process;
- Critical factors in the contract closeout process;
- Steps that can be consolidated or eliminated in the contract closeout process;
- Steps that would be included in a standard contract closeout model.

B. EXISTING PROBLEMS IN THE CLOSEOUT PROCESS

Reasons for delays in the closing of Government contracts are numerous. Several studies have been conducted over the past several years to determine what causes these delays, including studies by Navy Postgraduate School (NPS) thesis students, studies by the U. S. Army Audit Agency, by the Air Force Audit Agency, and studies by the Inspector General,

Department of Defense [Refs. 6-12]. Information gathered from these previous studies and from personal interviews with Contracting Officers currently working on contract closeout actions identified major reasons for delays in closing out U. S. Government contracts and delays in initiating the closeout process. Questions asked of the six personnel interviewed in this research study to identify variations in the system are as follows:

1. Have you ever had specific training in closing out contracts?

Personnel that were asked this question replied that they had never received specific training in closing out contracts. Most had been introduced to the process and had a minor amount of training in this area in a contract administration course of some kind. All respondents indicated that the majority of the knowledge they had obtained in this area had been acquired through on-the-job training.

In a study conducted by another NPS student, respondents indicated that 85% had no training in the closeout process and 15% had had some formal training [Ref. 6:p. 36]. The 15% that had some training said it had been part of a basic contracting course.

2. What are the principal reasons for delay in closing out contracts?

Research indicated the principal reasons for delays are relatively consistent. In a study conducted by a previous NPS student the following reasons were cited by the percentage of respondents indicated:[Ref 6:p.35]

- Delays caused by DCAA 33%
- Delays caused by the ACO 20%
- Delays caused by the contractor 14%
- Reconciliation of differences between the paying and the funding offices 10%
- Other (lack of resources, litigation, etc) 22%

Personal interviews led to the following reasons for delays in closing out contracts:

- Delays caused by waiting for DCAA audits
- Delays in disposition of Government Furnished Property (GFP)
- DFAS delay in payment of final voucher
- Low priority given to the closeout process
- Delays caused by the negotiation of overhead rates
- Waiting for the contractor's final voucher
- Delay in receipt of the final patent report
- Delays in the disposition of classified materials

The first of these studies was conducted in the latter part of 1991 [Ref. 6] and the second study was conducted in the latter part of 1993 [Ref. 13-16]. Many of the same delays were cited in both studies indicating little progress has been made in eliminating the most common causes of delays over the past several years. The cause of delay most often cited in both studies was delays caused by waiting for DCAA to complete their final audit. (DCAA is several years behind in conducting audits of contractor final overhead rates) Presently DCAA is conducting a major effort to complete the audits of 1989 overhead rates.

3. Have you ever used the quick closeout procedures or bilateral agreements to speed up the closeout of contracts? Why or why not?

Research indicated that the quick closeout procedures were seldom, if ever, used by five of the six persons interviewed. The respondent that indicated the quick closeout procedures were used often appeared to have the same types of contracts and the same work load as the other respondents. Of the personnel that indicated they very seldom used the quick close out procedures, the primary reasons for not using them were the low dollar threshold for use of the procedures and having few contracts to which the procedures applied.

In a study done by another NPS student the 63 respondents indicated that 47% had used quick closeout procedures at one

time or another and that 53% had never used quick closeout procedures. Bilateral agreements were also seldom used. Fourteen percent of the respondents had used bilateral agreements at one time or another and 86% had never used bilateral agreements. Of those that said they had never used the procedure, the majority stated they were unaware of the procedures [Ref. 6:p. 27].

4. Has a system been developed to keep track of when contracts are physically completed?

Research indicated that contracts are tracked both manually and via automated systems. Various automated systems were used, the predominant one being the one developed by DLA called Mechanized Contract Administration Services (MOCAS). At present, DLA organizations are the only ones using MOCAS. MOCAS tracks shipments using data base inputs and provides visibility of contract completion to management and the ACO.

Manually tracked systems have a variety of ways of tracking the closeout process. Methods of tracking the process included:

- By monitoring an "exception list"
- Periodic sweeps of the files
- Forms sent to the requesting code asking if services have been completed

These methods would not produce the timely results required to meet the required time frames for closing out Government contracts as stated in F 804-1.

5. How would you decrease delays caused within your office?

Research indicated that respondents believed few delays were caused by their own offices. Of the respondents that indicated there were delays, all said the way to decrease the delays would be to dedicate more personnel to the closeout process. One respondent indicated the way to free up more time to work on current contract closeouts would be to clear up old contracts (close them out).

6. What might your office do to decrease delays the contractors may be experiencing?

Respondents indicated the only way to decrease delays at contractor facilities would be to make frequent phone calls to the contractors to coax them into completing their actions in a more timely manner.

7. How might you go about increasing the priority on closing out contracts? Should this even be done?

Research indicated that the majority of the respondents would not increase the priority placed on the closeout process if they had the opportunity. Methods that

could be used to increase the priority on closing out contracts include: bringing up closeout at monthly meetings and placing contracts ready for closeout on overage contract lists.

C. CRITICAL STEPS IN THE CONTRACT CLOSEOUT PROCESS

Research was conducted to determine the critical steps in the contract closeout process. Critical steps were identified through questions asked of the various personnel interviewed and through information gathered from previous studies. The normal contract closeout process involves the following sequential steps:

- Contract is physically completed.
- ACO sends the initial DD Form 1594 (Interim Contract Completion Statement) to the PCO to inform him/her the closeout process has begun.
- ACO completes all items on the DD Form 1597 (these are the items listed in FAR 4.804-5).
- ACO checks for any recent modifications to the contract and ensures they are incorporated into the contract. ACO closes the administrative contract file.
- ACO completes the DD Form 1594 (Contract Completion Statement) and sends it to the PCO to indicate the contract is administratively closed out. The PCO now has sixty days to complete the contract closeout process or seek a waiver of this time constraint.

Items that are listed in FAR 4.804-5(a) which must be completed on the DD Form 1597 include:

- Disposition of classified material is completed;

- Final payment report is cleared;
- Final royalty report is cleared;
- There are no outstanding value engineering change proposals;
- Plant clearance report is received;
- Property clearance is received;
- All interim or disallowed costs are settled;
- Price revision is completed;
- Subcontracts are settled by the prime contractor;
- Prior year indirect cost rates are settled;
- Termination docket is completed;
- Contract audit is completed;
- Contractor's closing statement is completed;
- Contractor's final invoice has been submitted;
- Contract funds review is completed and deobligation of any excess funds is recommended.

Critical steps are items identified that must be accomplished for the closeout process to continue and items that take a long period of time to complete. Questions asked in this research study to identify critical factors include the following:

1. What items in the contract closeout process take the longest to complete?

This question was asked to determine the items in the process that might hold up/delay the process for long periods

of time. The following items were identified as taking the longest to complete:

- Completion of the DCAA audit of final overhead rates.
- Payment of the final contractor voucher by DFAS.
- Settlement of contractor final overhead rates.
- Receipt of the contractor's final payment voucher.
- Receipt of the final patent report.
- Disposition of GFP.

Of these items the DCAA audit and payment of the final voucher by DFAS were mentioned most often (by 50% of respondents) and actually took the longest period of time to complete.

In another study conducted by a NPS student [Ref. 6:p. 35] the following were reasons given for delay in closing out Government contracts:

- | | |
|---|-----|
| • Delays caused by DCAA | 33% |
| • Delays caused by the ACO | 21% |
| • Delays caused by the contractor | 14% |
| • Delays in reconciliation of differences between the funding office and the paying office. | 10% |

2. What items must be accomplished before other items can be started?

This question was asked to determine which items in the process might delay the process and all subsequent items in the process. The following responses were received:

- Contract must be physically completed.

- DCAA audit must be completed.
- Final payment voucher must be received from the contractor.
- Final payment must be made by DFAS.

Each of these items will stall the contract closeout process until it has been completed. Many of the items on the DD Form 1597 and the DD Form 1593 can be tracked simultaneously for a reduction in processing time.

3. What elements of the contract closeout process are critical?

Research indicated there were items in the closeout process that were more critical to the process than others. Personnel interviewed stated that all items listed on the DD Form 1597 and the DD Form 1593 were required for the closeout of the contract as stated in FAR 4.804-5(a), but that the following items determined whether the contract would be closed out in a timely manner:

- Final payment voucher received from the contractor.
- DCAA final audit completed.
- Settlement of final overhead rates.
- Physically completed contract.
- Certifications and completion of normal vouchers.
- Final payment made by DFAS.
- Obligations matched to expenditures.

- All items on the Closeout Checklist (DD Form 1597) completed.

All of the above items and the other items listed in FAR 4.8 must be included in the closeout process, but the items listed above should receive additional attention by personnel closing out the contract to insure the contract is closed out in a timely manner.

4. What actions can the contracting officer take to ensure timely completion of the contract closeout process?

Research indicated many of the problems that delay the closeout process could have been prevented by closer attention to proper procedures in the administration of the contract. Still other problems could not be eliminated in this manner and seem to be problems in the process itself. The responses received to this question all fall into the first category.

The following responses were received:

- Maintain periodic communications (weekly or bi-weekly) with the contractor and ask which contracts are physically completed.
- Negotiate overhead rates as early in the process as possible.
- Communicate with DFAS to ensure no problems arise with the closeout process.
- Review the DD Form 1597 to ensure all items are completed.

No responses were received that were indicative of problems in the process itself, but from other questions in this study the following problems were identified with the process:

- DCAA caused delays due to the shortage of personnel and heavy workloads.
- DFAS caused delays due to inexperience of their personnel and heavy workloads.
- Delays caused by the contractors who owe money on the contract and therefore have no incentive to close the contract.
- Communication between agencies involved in the closeout process is poor.
- Delays in settlement of contractor final overhead rates.

Each of these problems require more than attention to detail in the administration of the contract. They require changes to the process itself to eliminate the delays caused.

5. What actions can the contracting officer take during the contract administration phase of the contracting process to ensure the timely closeout of the contract?

Research indicated the contracting officers were not aware or were not concerned that problems not solved in the administration of the contract would cause additional problems in the contract closeout process. Responses were expected to be similar to the responses to question four above. Actual responses were more along the lines of what the contracting

officer would have done upon discovery of the problem. Actual responses received were as follows:

- Talk with the contractor to determine if any additional actions are required.
- Resolve disputes as they occur.

From these responses it appears the contracting officers are not thinking ahead nor planning for the closeout process. They are in a reactive mode, handling problems as they arise.

D. THE CONTRACT CLOSEOUT CHECKLIST

The Contract Closeout Checklist (DD Form 1597) contains the same requirements listed in FAR 4.804-5(a). It is a worksheet of the FAR requirements in an easily usable format. It was the intent of this research study to identify items on this checklist that could be eliminated or combined with other items to expedite the closeout process. Research conducted indicates this is not a viable alternative. The majority (75%) of the personnel interviewed indicated they used the DD Form 1597 as part of the in-house closeout procedures. When asked which items on the checklist could be combined, 50% indicated that no steps could be combined and the other 50% indicated that the items on the checklist were worked simultaneously so that there was no reason to eliminate any of the items. All items on the checklist are not applicable to all contracts and can be checked off quickly, but the items on

the checklist must be checked for as stated in the FAR. When asked which items on the DD Form 1597 could be eliminated, all personnel interviewed said no items should be eliminated.

These were not the results expected at the beginning of this research project. With the current strong trend in the use of Total Quality Management (TQM) techniques, the research was expected to reveal items that were no longer used in the field or were interfering with the closeout process. For this particular checklist this is not the case.

All personnel interviewed had had some training in Dr. Deming's method of TQM. Only 25%, however, had training in the continuous improvement process and that training occurred outside the work place. Seventy-five percent of the personnel interviewed indicated the application of TQM techniques to the closeout process resulted in little or no improvement. The reasons stated for this lack of improvement included: (1) lack of control over the factors that caused the delays in the process and (2) laws and regulations that restrict freedom of action. No changes were indicated for the Contract Closeout Checklist and no changes are likely to occur until the FAR 4-804-5(a) is changed or eliminated.

E. Summary

Problems in the contract closeout process are many and varied. From the results indicated in this chapter it appears that the closeout process has room for improvement and can

benefit from the application of Dr. Deming's techniques for TQM and the continuous process improvement method. This does not, however, include revision of the DD Form 1597 as long as FAR 4.804-5(a) remains unchanged. The next chapter will analyze the information presented in this chapter, indicate the impact these problems have on the overall contracting process and make suggestions for improving the process.

IV. ANALYSIS OF THE DATA

A. INTRODUCTION

This chapter will review and analyze the data presented in chapter three. The information gathered from previous studies of the contract closeout process, when taken with information gathered in this research study, shows long term trends and unresolved problems with the process and implementation of the process by the contract specialists. This analysis will be presented in four areas:

1. Current practices in the closing of contracts.
2. Problems existing in the closeout process.
3. The critical steps in the contract closeout process.
4. The contract closeout checklist.

B. CURRENT PRACTICES IN THE CLOSING OF CONTRACTS.

The basic process of closing out contracts is sound, but it has room for improvement. The closeout process involves many personnel both within the U. S. Government and at the contractor facilities. The process is time consuming and ties up a large amount of U. S. Government funds. Contract closeout is assigned a low priority by most contracting offices, so it is set aside when more pressing problems arise. Despite all this, U. S. Government contracts are closed on a regular basis, but not usually within the time frames specified in the FAR 4.804-1(a).

Some uniformity is being developed in the process with the use of DD Form 1593, DD Form 1594, and DD Form 1597. These forms, which add a more structured approach to the close out process, are being used more and more by contracting offices that close out contracts. There are, however, many items on the DD Form 1597 and FAR 4.804-5 to complete, and they consume a great deal of time. Personnel interviewed indicated that many of the items are being processed concurrently and that there is no particular order in which the steps must be taken except for signing the form when all other steps are completed.

When asked which items on the DD Form 1597 could be eliminated, all personnel interviewed indicated that no items on this form should be eliminated. Each item on this checklist is mandated by regulation to be reviewed as part of the contracting function. The only instance where elimination of an item would be viable would be if the laws or regulations are changed. Review of the acquisition process, with the idea of streamlining the process, is currently being conducted in U. S. Congress (Section 800 Report). From a review of the Section 800 Report, it appears the only part that will effect the contract closeout process is a proposed revision of the contract claims process. The proposed revision will make claims somewhat easier to process in the court system. This is not a major problem in the closeout process and will affect only a small number of contract

actions, thereby not dramatically affecting the closeout process.

All personnel interviewed had some training in Dr. Deming's Total Quality Management techniques. Additionally, all had at least an introduction to continuous process improvement techniques. Seventy-five percent of the personnel interviewed had made an attempt to apply the teachings of Dr. Deming to the closeout process. Fifty percent of the personnel interviewed continue to apply the techniques and have had some favorable results with the process. Progress has been made in the identification of problems in the process and in reductions in the time delays that result from these problems. The major problems identified will be discussed later, but steps such as putting closeout actions on monthly and weekly supervisory review meeting agendas and better communications with contractors, have lessened the time to close out contracts and improved working relations between contracting officers and contractor personnel.

C. EXISTING PROBLEMS IN THE CLOSEOUT PROCESS

Reasons for delays in the closing of Government contracts are numerous. Studies that have been conducted over the past several years have identified many causes of these delays and have made many suggestions for improvement. The great majority of these solutions involve applying more time and resources to the problems, but do not address the problems

themselves. With the current reductions in staff and resources available to contracting offices in the U. S. Government and in industry, the option of applying more resources to the problems is no longer available to contracting officers. The current downsizing in the Department of Defense will require U. S. Government contracting officers to conduct the same or increasing amounts of work with reduced staffs and smaller budgets. The overall amount of work will decrease as the current contracts are settled and closed out, but the reduced staffs will individually be doing an increased amount of work as entire contracting offices are closed and the workloads from those offices are transferred to the remaining offices.

1. Contract closeout training.

Research has shown that the personnel who close out contracts have never received specific training in closeout procedures. However, most had been introduced to the process and had a minor amount of training in this area in a contract administration course of some kind. All respondents indicated that the majority of the knowledge they had obtained in this area had been acquired through on-the-job training. The contract closeout process is not a difficult one, but it requires very specific actions to be taken. Personnel that are untrained in the process and unfamiliar with the DD Forms 1593, 1594 and 1597 could make mistakes that result in a loss

of funds for the U. S. Government or for the contractor. The actions to be taken in the process involve many agencies inside and outside the U. S. Government and require coordination skills on the part of contract administration personnel. To develop the necessary skills and knowledge to close out U. S. Government contracts in the time frames specified in the FAR, contracting officers and staff personnel require specific training in the closeout process.

2. Reasons for delay in closing out contracts.

Research indicated the principal reasons for delays in the closeout process are consistent. The majority of these reasons for delay stem from the low priority the organizations involved assign to the contract closeout operation. When other tasks are presented the closeout actions are put aside to complete the higher priority tasks. In a presentation given to contracting students at the Naval Postgraduate School, a U. S. Government contracting officer stated that his organization was so overworked that they had to cut back on services somewhere, and they made the choice to stop working contract closeout actions completely. Until the workload slacked, they would not expend time or other resources on closing out contracts. This is an extreme example, but indicative of the problems that exist in Government contracting at this time.

Studies conducted in 1987, 1991 and the latter part of 1993 resulted in many of the same delays being cited, indicating little progress has been made in eliminating the most common causes of delays over the past several years. The cause of delay most often cited in these studies was delays caused by waiting for DCAA to complete their final audits. DCAA is several years behind in conducting audits of contractor final overhead rates. As of the writing of this report the DCAA is conducting a major effort to complete the audits of 1989 overhead rates. DCAA's top priorities are in auditing contract proposals and in auditing post and pre-negotiation memorandums with auditing of final overhead rates one of their lowest priorities [Ref. 17:p. 6]. In this the DCAA is similar to both the U. S. Government contracting offices and the contractor contracting offices. As long as the contract closeout process remains such a low priority at DCAA the prospects of them catching up on their auditing of overhead rates is not good.

3. Quick-closeout procedures and bilateral agreements.

Research indicated that the quick-closeout procedures were not commonly used by the respondents. Personnel that rarely used the quick-closeout procedures indicated the primary reasons for non-use were the low dollar threshold for use of the procedures and having few contracts to which the procedures applied. When asked for elaboration on these

points, the explanations included a lack of time to apply the procedures, a lack of understanding of the procedures, the fact that the cut off point is too low (currently applies to contracts less than \$10,000) to make it worthwhile to use the procedures, and that they intended to use the procedures more in the future. These procedures are intended to reduce the time required to close contracts. To say that there is insufficient time to apply the procedures seems a contradiction. Quick-closeout procedures cut down on the time required to closeout contracts significantly and should be used whenever possible. It appears more training may be required to allow U. S. Government personnel to use this tool more effectively.

Bilateral agreements were seldom used primarily because of the lack of understanding of the procedures and lack of awareness of the procedures.

4. Systems for tracking contract physical completion and the initiation of the contract closeout process.

Research indicated that contracts are tracked both manually and via automated systems. No uniform tracking system has been developed for use throughout the U. S. Government or throughout the DoD. Various automated systems are currently being used, most of these were developed for use within the command. DLA uses an automated system called the Mechanized Contract Administration Service or MOCAS at all of

their offices. MOCAS tracks shipments using data base inputs and provides visibility of contract completion to management and the ACO. With many independent computer systems, the systems will probably not be able to communicate with each other. This makes it more difficult for contracting officers to share information and to pass information from one command to another. With the current push to automate processes in the Department of Defense, more and more of the contracting functions are being automated, and automation of the contract closeout function with a common system through the DOD is long overdue.

Manually tracked systems are much better than no system at all, but these systems tend to be much slower than the automated systems. These methods do not produce the timely results required to meet the time frames for closing out Government contracts as stated in FAR 4.804-1.

5. Decrease delays caused within your office.

Research indicated that respondents were more aware of delays caused by outside organizations than they were aware of delays caused by their own organization. Of the respondents that indicated there were delays within their offices, all said the way to decrease delays would be to dedicate more personnel to the closeout process. With the current trend in downsizing of U.S. Government organizations, it is more realistic to plan for decreasing resources in the future. The

mindset of throwing more people and resources at problems must be overcome so that new and innovative ways can be sought to overcome these problems. Contracting personnel must set up time schedules for the closeout process and review these schedules periodically to insure they are not part of the problem instead of part of the solution.

6. Decreasing delays contractors may be experiencing.

Respondents indicated that better coordination of the closeout process with contractors would decrease delays within the contractors' organization. This can be accomplished with more frequent communications with contractors and the coordination of actions with other U. S. Government offices. U. S. Government organizations can often elicit action from other U. S. Government organizations where the contractor organization may have failed to elicit the same action. A more active role in contractor/Government communications may help the Government contracting officer to more timely close out contracts.

7. Increasing the priority on closing out contracts.

Research indicated that contractors and contracting officers alike put a low priority on the closeout process and would not increase that priority if they had the opportunity. Downsizing of contract offices and decreasing resources will mean even fewer resources available in the future. An

increased priority for the closeout process is important if the backlog of closeout actions is to be decreased. Methods that could be used to increase the priority on closing out contracts include: bringing up closeout actions at monthly review meetings and placing contracts ready for closeout on overage contract lists. Giving more visibility to the problems is usually a good way to start correcting the problems.

D. CRITICAL STEPS IN THE CONTRACT CLOSEOUT PROCESS

Research indicated there are factors that are more critical to the process in terms of time to complete the process and process stoppages, but because of laws and regulations, all factors listed in FAR 4.804-5 must be part of the closeout process. Critical steps, which were listed in chapter three, were identified through questions asked of the various personnel interviewed and through information gathered from previous studies. The normal contract closeout process involves the following steps:

1. Contract is physically completed.
2. ACO sends the initial DD Form 1594 (Interim Contract Completion Statement) to the PCO to inform him the closeout process has begun.
3. ACO completes all items on the DD Form 1597, which includes the following:
 - Disposition of classified material is completed;

- Final payment report is cleared;
- Final royalty report is cleared;
- There are no outstanding value engineering change proposals;
- Plant clearance report is received;
- Property clearance is received;
- All interim or disallowed costs are settled;
- Price revision is completed;
- Subcontracts are settled by the prime contractor;
- Prior year indirect cost rates are settled;
- Termination docket is completed;
- Contract audit is completed;
- Contractor's closing statement is completed;
- Contractor's final invoice has been submitted;
- Contract funds review is completed and deobligation of any excess funds is recommended.

4. Check for any recent modifications to the contract and ensure they are incorporated into the contract.

5. ACO closes the administrative contract file and sends it to the archives.

6. ACO completes the DD Form 1594 (Contract Completion Statement) and sends it to the PCO to indicate the contract is administratively closed out. The PCO now has sixty days to complete the contract closeout process or seek a waiver of this time constraint. The final voucher is paid or money is collected on the contract.

7. The payment office and the PCO close out their respective contract files and send them to the archives.

Critical items were identified that must be accomplished for the closeout process to continue and items were identified that take a long period of time to complete.

1. Items in the closeout process which take the longest to complete.

Research identified several items that may delay the closeout process for long periods of time. Of the items that take the longest to complete, the DCAA audit was mentioned most often. The final DCAA audit is required for all contracts and with the low priority attached by DCAA to closeout actions, any final audit will take longer to complete than actions for new procurements. The DCAA audit of final overhead rates for cost reimbursement contracts is even more time restrictive. These audits cover comprehensive review of the contractor's overhead pools and can be very time consuming. This year DCAA made a concerted effort to complete all overhead rate audits for fiscal year 1989. With a several year wait to be expected for this audit to be completed this is the most time consuming part of the contract closeout process. After the DCAA audit is completed the rates must still be negotiated with the contractor. Current regulations require a copy of the post negotiation memorandum to be sent

to DCAA, and if they do not agree with the final settlement they can officially question the results and the closeout process is held up again while the contracting officer justifies the final settlement.

Payment of the final contractor voucher by DFAS has been identified as a factor that takes a longer period of time than would be expected. High turnover of personnel and shortages of personnel are the primary causes of this delay. DFAS has relatively inexperienced personnel working on contract final vouchers (GS-3 to GS-7 personnel). As these personnel become more experienced with the process and more familiar with the procedures, they are transferred to higher priority projects. With this system there is a constant turnover of personnel in the area of contract closeouts. This is yet another problem caused by the low priority placed on the contract closeout process.

Receipt of the contractor final payment voucher is more of a problem when the contractor owes the U. S. Government money upon completion of the contract. Overpayment of progress payments, reimbursement from engineering change proposals, and reimbursements from value engineering proposals can all result in the contractor owing the U. S. Government money at the time of contract completion. Contractors have little incentive to closeout the contract if this will result in them paying money back to the U. S. Government, so the final voucher and the final overhead rates are slow in coming from the contractor.

Receipt of the final patent report is a process that can take a long period of time, but it is a process that can be aided by proper planning. The final patent report must be provided in any contract where a patent has been applied for in the course of the contract. Unfortunately, this report is usually not requested until the contract is physically complete or close to completion. With more advanced planning this report can be requested several months in advance of the closeout, thus eliminating the problem.

Disposition of Government Furnished Property (GFP) is a process that must be coordinated between the contractor, the CO and the property administrator. The contractor has little incentive to turn over U. S. Government property that is useful to the organization's operations. This is an area where the CO can be instrumental in shortening the process time by coordination of the efforts of the contractor and the property administrator. The ACO is required to maintain a list of all GFP that is in use by the contractor for any given contract. Providing this list to the property administrator in advance of the closeout action would allow the property administrator time to plan for the disposition of the property at the time of contract closeout.

2. Items that must be accomplished before other items can be started.

Research indicated many of the items on the DD Form 1597 and DD Form 1593 can be tracked simultaneously for a reduction in processing time. Certain items, however, must be completed before other items can begin.

a. The contract must be physically completed before the contract closeout process can be started. This is the official beginning of the closeout process, accordance to FAR 4.804-1. Lack of personnel and shortages of resources prevent actions from being accomplished before notice of physical completion of the contract is given to the contracting officer.

b. The final payment voucher must be received from the contractor. Without the final payment voucher, the DCAA audit and the final payment from DFAS, follow-on closeout processes cannot be started. Without the DCAA audit the final payment process at DFAS cannot be started. Each of these processes has previously been identified as capable of taking a long period of time. These actions are not under the control of the CO, so only informal actions can be taken to help speed up the process. Some of these actions will be explained in Chapter V.

c. Each of the items listed above can stall the contract closeout process if not accomplished in a timely manner. The other items on the DD Form 1597, DD Form 1594 and

DD Form 1593 can be accomplished simultaneously and independently. This would make the items listed in sections a and b above, the critical items of the closeout process, even though the other items on the forms listed above must also be accomplished.

3. Items that were indicative of problems with the contract closeout process.

Research revealed no responses that were overtly indicative of problems in the process itself, but from other questions in this study and past research in this area several problems were identified with the process.

a. Delays caused by DCAA were due to shortage of personnel, rapid turnover of personnel and heavy workloads. DCAA has been affected by the downsizing effort along with the rest of the U. S. Government. The workload continues to be heavy and because of the low priority assigned to closeout actions, a backlog of several years worth of audits of overhead rates has accumulated. There is a rapid turnover of personnel assigned to closeout actions at DCAA. As personnel gain experience with DCAA and become more knowledgeable with the auditing procedures, they are assigned to higher priority tasks. With a few years of experience completed these U. S. Government auditors apply for higher paying jobs at commercial firms and leave DCAA. This relatively high turnover of personnel assigned to closeout actions ensures a continuous

flow of inexperienced personnel assigned to this task. This process is likely to continue until DCAA assigns a higher priority to contract closeout actions and finds other ways to retain the services of top quality personnel.

b. Personnel are assigned to payment of final vouchers soon after they arrive at DFAS. As these personnel gain more familiarity with the systems at DFAS and become more experienced in their jobs, they are assigned to higher priority tasks. This results in a flow of inexperienced personnel that work on final payment actions. Any problems with individual actions will cause the final payment vouchers to be put aside for further review and reconciliation.

c. Contractors who owe money on a contract have no incentive to close the contract. Contractors can delay submission of final payment vouchers and final overhead rates without penalty. The contracting officer must take an active role in inducing the contractor to submit final payment vouchers and final overhead rates. Actions the contracting officer can take will be covered in the next chapter.

d. It appears to be inherent in the process that when a problem arises in contract closeout that action is put aside in favor of working on actions that can be completed in a more expeditious manner. Communication of these problems between agencies involved in the closeout process is poor. When problems arise that involve more than one U. S. Government agency, the agencies tend to blame each other for the problem

and little is done to resolve the problem itself. Contracting organizations tend to be better at this type of communications because they work together on a regular basis, but the problem still exists and the CO must coordinate the efforts of many U. S. Government and commercial organizations to accomplish the closeout process.

Each of these problems requires more than attention to detail in the administration of the contract. Each problem requires changes to the process itself to eliminate the delays caused.

K. THE CONTRACT CLOSEOUT CHECKLIST

It was the intent of this research study to identify items on this checklist that could be eliminated or combined with other items to expedite the closeout process. Research conducted indicates this is not a feasible alternative. When asked which items on the DD Form 1597 could be eliminated, all personnel interviewed said no items should be eliminated.

These were not the results expected at the beginning of this research project. With the current strong trend in the use of Total Quality Management (TQM) techniques, the research was expected to reveal items that were no longer used in the field or were interfering with the closeout process. For this particular checklist this is not the case. Seventy-five percent of the personnel interviewed indicated the application of TQM techniques to the closeout process, but with little or

no improvement. This lack of improvement was attributed to (1) the CO had little or no control over many of the steps in the closeout process and (2) laws and regulations prevent the elimination of steps in the closeout process. No changes were indicated for the Contract Closeout Checklist and no changes are likely to occur until the FAR 4-804-5(a) is changed or eliminated.

F. SUMMARY

This chapter analyzed the information presented in Chapter III. Research into the problems with the contracting closeout process produced many expected results and some unexpected results. Analysis of the data collected has shown many problems are inherent in the process itself and are not just a matter of poor implementation of the procedures established by laws and regulations. Chapter V will present conclusions, make recommendations for improvement of the procedures, provide answers to the research questions and make recommendations for further research.

V. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCTION

There is no single U. S. Government-wide or DOD-wide procedure for closing out contracts. Use of the DD Forms 1593, 1594 and 1597 help to ensure all requirements of the FAR and DFARS are satisfied. Most of the problems in the contract closeout process stem from the low priority U. S. Government organizations place on the closeout process. Downsizing in most U. S. Government organizations will result in fewer personnel and resources to dedicate to the closeout process and greater backlogs of work in this area. Understanding of the problems in the contract closeout process may help the contracting officers to prevent these problems and avoid them in future contract closeout actions.

B. CONCLUSIONS

This research effort has led to several conclusions in regard to the closeout of U. S. Government contracts.

Conclusion 1. A higher priority must be placed on the closeout of U. S. Government contracts. Many of the problems seen in the contract closeout process are just symptoms of the more general problem that management places a low priority on the closeout of contracts. Delays within DCAA, DFAS and many contract administration offices are a result of contracting

personnel delaying action on contract closeout items until after actions on new procurements have been completed. Management must take an active role in placing a higher priority on the closeout of U. S. Government contracts. Contract specialists and procurement clerks will not spend the necessary time on the contract closeout process if management continues to stress only actions on new procurements. Unfortunately, the U. S. Government procurement process is structured so that a very close eye is kept on new procurement actions, and U. S. Government procurement supervisors are judged by how they manage these new procurements. Once the contract has been awarded these supervisors focus on the next new procurement and the administration function is passed on to another organization. Administration contracting offices focus on obtaining the desired product or service and supervisors are judged on how they manage this function. Once the final product or service has been delivered the contract is shifted to the lowest priority and only completed when all higher priority items have been completed. This situation will not improve until management places a higher priority on the contract closeout process.

Conclusion 2. Automation of the contract closeout process and distribution of a uniform closeout process is needed.

Automation of the closeout process is long over due. An automated system would allow management to keep a closer watch

on the progress of the closeout process. The contract specialists and procurement clerks would have more incentive to make progress if they knew management was watching their progress. Unfortunately, an automated system is only as good as the information input into the computers. Automation by itself is not the answer; the contract specialists and procurement clerks must still have some incentive to keep the systems up to date. Management must still provide that incentive.

Automated systems exist in many contracting offices. Most of these are stand alone systems developed for the command at which they are being used. This works well for the office involved, but these systems will not be compatible with contractor automated systems or automated systems at other U. S. Government commands. Information is not easily transferred from one system to another. Systems such as MOCAS are a step in the right direction. MOCAS is used at all DLA contracting offices. MOCAS can send information via modem to other DLA offices and DFAS. A uniform, automated contracting closeout system is needed to serve all organizations in the U. S. Government.

Conclusion 3. More training in the contract closeout process is needed. Contract specialists have learned very basic information about the contract closeout process from taking basic contracting courses. The personnel interviewed

for this research gained all their practical knowledge regarding contract closeout from on-the-job training. This system works well when all procedures are well known by more experienced personnel, but under this system new procedures are slow to be accepted and used. Quick-closeout procedures are underutilized by most contracting offices and the use of bilateral agreements for overhead rates is almost non-existent. U. S. Government contract specialists have not been taught to use these tools and the procedures are not well established in U. S. Government contracting offices, so there is no one to provide on-the-job training.

Closing out U. S. Government contracts requires very specialized knowledge of closeout procedures and the coordination of efforts among many different U. S. Government and commercial organizations. Contract specialists require training in all the processes involved in closing out contracts to be effective.

Conclusion 4. Communications among organizations involved in the contract closeout process is poor. Hostilities have developed over many years between DCAA and contracting organizations. DCAA's function is to identify and call attention to problem areas. Unfortunately, U. S. Government organizations are structured to place blame when problems are found. Since DCAA is the organization that finds these problems, an adversarial relationship has developed between

DCAA and contracting organizations. This adversarial relationship has caused these two groups to communicate with each other only when absolutely necessary.

A similar adversarial relationship can develop between ACO and PCO offices. PCOs pass the administration of contracts on to ACOs after award of the contract. The PCO will no longer be involved with that contract unless some controversy arises. At this point in the life of the contract, the only time the ACO and the PCO communicate on specific contracts is when there are problems with the contract. The ACO will not look forward to hearing from a PCO if he or she expects to be given a problem to solve, and therefore additional work to do. Delegations of authority in the administration of contracts are not always a clear cut process. The ACO may pass a problem up to the PCO if he or she thinks the problem is not within the scope of his or her authority. This problem may be in one of the areas where delegation of authority is not clear and a controversy may arise. The ACO and the PCO each think the other should deal with the problem. These are just two examples of how an adversarial relationship can arise between the ACO and the PCO.

Adversarial relationships can develop between DFAS and DCAA when DFAS challenges amounts in DCAA audits. They can develop between DFAS and ACOs when DFAS refuses to pay a voucher until the ACO provides supporting documentation. They can develop between DCAA and ACOs when DCAA challenges amounts

negotiated by the ACO. All of these situations lead to poor communication between the organizations involved.

Conclusion 5. The Contract Closeout Checklist (DD Form 1597) should not be revised until FAR 4.804-2 is revised. Research had shown that the DD Form 1597 is an effective tool in the management of contract closeouts. This form provides a convenient checklist for actions required to be accomplished in the closeout of contracts by FAR 4.804-2. DFARS 204.804-2(1)(ii) suggests its use, but does not require it. All items on the checklist are required by regulation, so no items can be eliminated until the regulations are revised.

Conclusion 6. The use of inexperienced personnel to perform tasks in the contract closeout process slows the process and causes delays in other organizations. This conclusion applies specifically to support organizations in the contracting system. DCAA and DFAS use inexperienced personnel to perform contract closeout actions and then transfer them to higher priority tasks as they gain more experience in contracting and auditing procedures. Using more experienced personnel or assigning personnel to auditing closeout actions for longer time periods would allow those personnel to become more efficient with the process and take less time to complete each closeout action. With a longer period of time to learn the correct actions and to become more

familiar with the process, even less experienced personnel would eventually become more efficient at performing the closeout process

Conclusion 7. The principles of Total Quality Management (TQM) and Continuous Process Improvement (CPI) can be applied to the contract closeout process to reduce the time required to close out contracts. The principles of TQM have been embraced by the Department of Defense and most COs have had some training in the basics of the process. Half of the COs interviewed for this research had attempted to apply TQM to the contracting process in general and to the closeout process in particular, with some success. The principles of CPI were not as well known or understood. CPI has made the most dramatic improvements when applied to processes that are repetitive and somewhat uniform, but the principles apply equally to less uniform systems such as the contract closeout process. CPI procedures identify the process and then problems in the process. These problems in the process are studied and eliminated so that the process takes less time and functions more efficiently. This research has identified many of these problems in the contract closeout process and will make recommendations for reducing these variations in the next section.

C. RECOMMENDATIONS

As a result of the conclusions, the following recommendations are made.

Recommendation 1. Increase the priority placed on the closeout of U. S. Government contracts. The closeout of contracts is given a low priority in contracting offices that perform the closeout function and in offices that support the contracting process. This low priority causes delays in the closeout of contracts and ties up millions of procurement dollars that could be spent on other vital military equipment. Management personnel must stress the importance of closing out contracts in a timely manner so that these procurement dollars can be deobligated and used for other purposes. This can be accomplished through training, by putting contract closeout actions on weekly and monthly review lists, or by maintaining up-to-date contract status lists on automated systems for review by management. The technology is available to maintain current status on all active contracts within a given office. It is time for management to use this technology to follow their contracts through the whole contract life cycle, including contract closeout.

Recommendation 2. Develop an automated system for the administration of U. S. Government contracts, including a uniform process for closing out those contracts. Automated systems for the establishment and the management of U. S.

Government contracts are plentiful. Unfortunately, a single system has not been established that can interface with all of these other systems. A single, U. S. Government-wide system of contract establishment and management is needed to allow contracting organizations to more effectively communicate with each other. This single system would save the U. S. Government money by using a standardized system and it would save the contractors money since they would only be required to maintain a single system to communicate with U. S. Government contracting organizations. A single system would also significantly reduce training costs and the time required for individuals that transfer from one organization to another to become familiar with the system at the new office. There may be some drawbacks to a single system, such as a loss of flexibility of the system, or the applicability of the system to the individual office, but it would seem advantages outweigh the disadvantages.

Recommendation 3. Develop a training program for the contract closeout process or cover the process in more detail in contract administration training courses. The training received by contracting personnel does not adequately prepare them to close out U. S. Government contracts. The contract closeout process is presented briefly in contract administration courses provided to the majority of U. S. Government contracting personnel. However, this training does

not prepare contracting personnel for the major effort of coordinating the actions of several U. S. Government and commercial organizations, and collecting the documentation required to close out a U. S. Government contract. A specific course is needed that covers all of these specific actions or at the very least much more detailed instruction must be given in existing contract administration courses.

Recommendation 4. Improve communications between U. S. Government organizations and between U. S. Government and commercial organizations involved in the contract closeout process. Improvement in communication between organizations involved in the contracting process can reduce the time required to close out contracts. Increased communications will lead to fewer misunderstandings and this will result in fewer problems. Some contracting organizations do not work well together because of inherent problems in the system, as explained in the conclusions section. Poor communications leads to contracts being put aside when problems arise. This causes delays and even more problems later on in the process. When contracting organizations talk to each other, problems are resolved and progress is made toward completion of the contract.

Recommendation 5. Use more experienced personnel in performing contract closeout actions. Support offices that

audit and others that pay on U. S. Government contracts could decrease the time required to process contract closeout actions by using more experienced personnel to perform these closeout actions. Use of inexperienced personnel, and then transferring these personnel to other functions, once they have gained experience with the closeout process, adds to the time required to closeout U. S. Government contracts. These personnel are not allowed to use the expertise they have gained, because they are transferred just when they become comfortable with the process. The system just described is inefficient and ineffective in decreasing the backlog of closeout actions that are developing at these organizations. Using more experienced personnel to process closeout actions will increase the efficiency of the process. Leaving less experienced personnel in the job for longer periods of time allows them to use the expertise they have gained in learning the process, allowing them to become more efficient.

Recommendation 6. Apply CPI procedures to reduce the time required to close out U. S. Government contracts. The continuous improvement process identifies problems in processes and then works to eliminate those problems so that the process works more efficiently. The contract closeout process is hampered by several problems that delay the process for long periods of time. Applying the continuous improvement process to contract closeout can reduce the time required to

closeout U. S. Government contracts by identifying these problems and working toward reducing delays caused by these problems. Solutions given in the recommendations of this chapter could be used as the first stage of this continuous improvement process. After these recommendations have been applied, the process would be reassessed for other problems and then additional recommendations would be made for further improvement of the process. The continuing process of identifying problems and applying procedures to eliminate those problems is a large part of continuous process improvement.

D. REVIEW OF RESEARCH QUESTIONS

Five subsidiary questions were posed to more clearly define the answer to the primary question. Responses will now be presented to the secondary questions first and then the primary question.

Secondary Question 1. What are the critical factors in the contract closeout process? Current contract closeout procedures were described in Chapter II. Research and personal interviews identified the following critical steps in this process: (1) auditing final overhead rates by DCAA, (2) obtaining the final payment voucher from the contractor, (3) DFAS payment of the final voucher, and (4) physical completion of the contract by the contractor. These were the items that

must be completed before other items could be started and in many cases, these were items that delayed the contract closeout process for the longest periods of time.

Secondary Question 2. What is the critical path in the contract closeout process? Because of the complexity of U. S. Government contracts there was no single critical path in the contract closeout process. There are critical items that must be completed before others can be started and there are some items in the closeout process that apply to all contracts. There are many items in the closeout process that can be accomplished concurrently, but there are also some items that do not apply to all contracts but must still be part of the overall closeout process. The many different contract types and differing procedures required to process each of them, require each contract closeout to be unique. There are, however, the following common steps to all Government contract closeouts: (1) physical completion of the contract, (2) submission of the final payment voucher by the contractor, (3) audit of the final payment voucher by DCAA, and (4) payment of the final voucher by DFAS or collection of the final amount owed on the contract by the contractor. These actions occur in all U. S. Government contract closeouts.

Secondary Question 3. What steps can be consolidated or eliminated in the contract closeout process by applying CPI? Research indicates no steps in the basic contract closeout process, as outlined in Chapter II, can be eliminated. The procedures indentified in FAR 4.804 and on the DD Forms 1593, 1594 and 1597 are mandated by law and regulation. These steps must remain in effect until the laws and regulations are revised. Many of these steps can be accomplished concurrently. The critical steps outlined above must be accomplished in a certain order, but there are many other steps that can be accomplished simultaneously. These steps are outlined in FAR 4.804-2 and on the DD Form 1597.

Secondary Question 4. What are the principal problems in the closeout process and what steps can be taken to eliminate these problems? Research indicated the following principal problems in the contract closeout process: (1) delays in obtaining DCAA audits, (2) delays in the negotiation of contractor overhead rates, (3) delays in obtaining the contractor's final voucher, (4) disposition of GFP, (5) delay in the receipt of the final patent report, (6) disposition of classified material, and (7) delays in the payment of the final contractor voucher. Many of these delays were symptoms of the underlying problem of the low priority the organizations involved placed on the contract closeout process. A fundamental change must take place in the way

management personnel prioritize the work they supervise. Closing out U. S. Government contracts is part of the acquisition cycle and can not continue to be brushed aside when higher priority work is received. U. S. Government funds tied up in contracts awaiting closeout are in the millions of dollars.

Some of these problems in the process can be eliminated by placing a higher priority on the closeout process, by assigning additional personnel to the closeout process, by improving communication between contracting organizations, by using quick-closeout procedures and bilateral agreements to avoid the long wait for audits of final overhead rates, by increasing the amount of training on the contract closeout process, and by automating the entire contract administration process, and the closeout process in particular, with a uniform automated system.

Secondary Question 5. What steps would be part of a model of the contract closeout process? The contract closeout process begins when the contract is physically completed. When the administration contracting organization receives word the contract is physically complete, the ACO completes the Interim Contract Completion Statement (DD Form 1594) and forwards it to the PCO. The ACO then completes all items listed in FAR 4.804-2 (which are the same items on DD Form 1597) and routes the Contract Administration Completion Record (DD Form 1593)

to the Plant Clearance Officer and the Property Administrator for signature. When all of the actions on these forms are complete, the ACO completes the Contract Completion Statement (DD Form 1594) and forwards it to the PCO to indicate that the contract is administratively closed out. The PCO has sixty days from the date on the DD Form 1594 to complete the contract closeout process. The payment office sends their contract files to the archives, the contract administrator sends their files to the archives and the procuring office sends their files to the archives, as each of these organizations complete their part of the closeout process. The PCO verifies that all actions required by the FAR and the DFAR have been completed and then officially closes out the contract.

Primary Question: How might the contract closeout process within the Department of Defense be streamlined and what would a model of the process look like? The contract closeout process has been described in Chapter II and in Secondary Question five above. Streamlining the process would not involve eliminating steps in the process. The steps involved in the process, as identified in this research study, have been mandated to be included by laws and regulations. Streamlining can be accomplished by identifying the factors in the process that delay the process for long periods of time, and by reducing the time to accomplish these factors.

Factors that take long periods of time to accomplish have been identified in Chapter III. The first step in reducing the time required to accomplish these factors must be to convince management to place a higher priority on the actions required to closeout U. S. Government contracts. This does not mean that closeout actions should be considered the highest priority, but it does mean that closeout actions should not be the lowest priority in the administration of Government contracts. The close out of physically completed contracts is an important part of the administration of the contract. As part of the closeout process all funds remaining on the contract are deobligated and returned to the command for use in other procurements. Funds that remain on physically completed contracts that have yet to be closed out run into the millions of dollars. Others actions to reduce the time to complete the critical factors are outlined in the recommendations in this chapter.

The contract closeout process can be effectively streamlined by using the principles of continuous process improvement. This process is explained in Chapter II and in Recommendation Six. As the name implies, it is a continuous process of improvement that will continue to improve the closeout process over time.

E. AREAS FOR FURTHER RESEARCH

As a result of analysis of the factors that delay the closeout process it was determined that the low priority contracting management personnel place on the closeout process is an underlying factor that causes many of the delays. An investigation is warranted into ways of increasing this priority with management.

Delays in the closeout process caused by waiting for DCAA to complete their audit of contractor overhead rates are substantial. Research should be conducted into actions contracting officers can take, when writing the contracts and in the normal administration of these contracts, to aid DCAA in reducing this audit time. This may involve clauses written into the contract or actions in the administration of the contracts.

Communication among organizations involved in contracting and procurement are poor. As a final area for further research, investigations should be conducted into methods of improving communications among contracting organizations.

APPENDIX A
THE CONTRACT CLOSEOUT PROCESS

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THE CONTRACT CLOSEOUT PROCESS

A. DEFINITIONS

The following are definitions for terms used in discussion of the contract closeout process and the Continuous Process Improvement Method:

1. ADMINISTRATIVE CONTRACTING OFFICER (ACO)

A Contracting Officer (CO) who is administering contracts. (FAR 2.101), (Formal ACO designations are not made by all agencies.) An ACO does most of his or her work after the Procuring Contracting Officer (PCO) has awarded the contract but generally does not have the authority to enter into modifications. An ACO functions at and through a contract administration office and performs contract administration functions involving, among other things, contractors' employee compensation structures and insurance plans, post-award orientations, forward pricing rate agreements, advance agreements, allowable costs, disputes, Cost Accounting Standards (CAS), progress payments, cost overruns, modifications, traffic management, tax exemption and duty-free entry certificates, labor relations, quality assurance, safety requirements, property administration, engineering surveillance, acceptance and rejection of waivers and deviations, value engineering programs, contractor

purchasing system review, consent to subcontracts, and monitoring of small business subcontracting plan compliance. (FAR 42.302) [Ref. 2: p. 11].

2. ACQUISITION STREAMLINING

Effort of a procuring agency that results in more efficient and more effective use of resources to design, develop, produce, or deploy quality systems (FAR 7.101). The objective of acquisition streamlining is to reduce the time and cost required for acquiring systems and to improve the quality of those systems by ensuring that solicitations and contracts contain only those necessary specifications, standards, and related documents that have been tailored for application at the most appropriate time in the acquisition cycle (FAR 10.002).

3. CLAIM

A written demand or assertion by one of the contracting parties seeking, as a matter of right, the payment of money, the adjustment or interpretation of contract terms, or other relief arising under, or relating to, the contract (FAR 33.201). A claim arising under a contract is a claim that can be resolved under a contract clause providing for relief sought by the claimant; a claim relating to a contract is one for which no specific contract clause provides such relief. However, a written demand or assertion by the

contractor seeking the payment of money exceeding \$50,000 is subject to the Certification of Claim requirement of the Contract Disputes Act (CDA) of 1978 and FAR 33.207. A voucher, invoice, or other routine request for payment that is not in dispute when submitted is not a claim[Ref. 2:p. 72].

4. CLAIMS COURT (CL. Ct.)

A court of the United States established especially to hear and decide legal claims against the U. S. Government. Its basic jurisdiction is conferred by 28 U.S.C. 1491, but it has a variety of additional jurisdictional statutes. Under the Contract Disputes Act (CDA) of 1978, 41 U.S.C. 601-613, as amended, this court shares concurrent jurisdiction with the Boards of Contract Appeals (BCAs) over U. S. Government contract disputes (each contractor appealing a Decision of the Contracting Officer must elect either the agency BCA or the Claims Court). The other jurisdiction of the Claims Court most relevant to Government procurement concerns protests (preaward only), 28 U.S.C. 1491(a)(3), disputes concerning fraud or forfeiture, 41 U.S.C. 604 and 28 U.S.C. 1491, and patent and copyright disputes, 28 U.S.C. 1498. The Federal Courts Improvement Act of 1982 created the Claims Court from the Trial Division of the Court of Claims[Ref. 2:p. 73].

5. CLOSEOUT

The process of settling all outstanding contractual issues to ensure that each party has met all of its obligations, and documenting the contract file accordingly. The primary objectives of contract closeout are: (1) to identify and resolve, before memories fade, any uncompleted obligations or pending liabilities on the part of either the U. S. Government or the contractor and (2) to ensure that contract-related decisions and actions have been properly documented. FAR 4.804 provides instructions for the closeout of contract files.

6. CONTRACTING OFFICER (CO)

An employee of the U. S. Government with the authority to legally bind the U. S. Government by signing a contractual instrument. FAR 2.101 defines a CO as a person with the authority to enter into, administer, and/or terminate contracts and make related Determinations and Findings (D&Fs). It then states: "The term includes certain Authorized Representatives of the contracting officer acting within the limits of their authority as delegated by the contracting officer." There are three types of COs, each with different responsibilities in contract procurement, management, and execution. A purchasing or Procuring Contracting Officer (PCO) has authority to enter into a contract, an Administrative Contracting Officer (ACO) administers the

performance of the contract, and a Termination Contracting Officer (TCO) is responsible for contract termination. Each must make determinations and findings related to his or her area of contract management (FAR 1.602-1). COs are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interest of the U. S. Government in its contractual relationships (FAR 1.602.2). COs are appointed in writing, on a Standard Form 1402, Certificate of Appointment (or WARRANT) (FAR 53.301-1402). In selecting COs, the appointing official must consider the complexity and dollar value of the acquisitions to be assigned and the candidates' training, education, business acumen, judgment, character and reputation (FAR 1.603-2).

7. CONTRACTOR

Usually used to denote a party that enters into a contract with the U. S. Government. However, the term may be applied to any individual or other legal entity that directly or indirectly submits offers for or receives a Government contract, that may reasonably be expected to submit offers for or receive a Government contract, or that conducts business (or may reasonably be expected to conduct business) with the U. S. Government as an agent or representative of another contractor (FAR 9.403). With regard to subcontracting, "contractor" (i.e., prime contractor) means the total

contractor organization or separate entity of it (such as an affiliate, division, or plant) that performs its own purchasing (FAR 44.101). Both the prime contractor and any subcontractor are defined as contractors for the purposes of equal employment opportunity (FAR 22.801) and Service Contract Act (FAR 22. 1001) compliance. [Ref. 2:p. 98]

8. CONTRACT SPECIALIST

An employee of a contracting activity in the GS-1102 personnel series. This series also includes procurement analysts, contract negotiators, cost/price analysts, and contract administrators. This series of employees forms the pool that is the main source of contracting officers.

9. PACKARD COMMISSION

The popular name of the President's Blue Ribbon Commission on Defense Management, which published its final report, *A Quest for Excellence*, in June 1986. Chaired by David Packard, the Commission made a number of significant recommendations on reorganizing the Joint Chiefs of Staff, the defense command structure, and the defense acquisition process, including creating the position of Under Secretary of Defense for Acquisition. The Commission's Acquisition Task Force suggested (1) streamlining acquisition organization and procedures, (2) using technology to reduce costs, (3) balancing cost and performance, (4) stabilizing programs, (5)

expanding the use of commercial products, and (6) enhancing the quality of acquisition personnel. The Commission's preliminary report was called, A Formula for Action: A Report to the President on Defense Acquisition.

10. PROCURING CONTRACTING OFFICER (PCO)

A Contracting Officer (CO) in the U. S. Government's buying office who enters into contracts and signs them on behalf of the U. S. Government. This term is used by DoD and other major agencies. In such agencies, after contract execution, an Administrative Contracting Officer (ACO) typically assumes responsibility for contract administration. Generally, a PCO is responsible for creating and publicizing the solicitation, selecting the source, negotiating and executing the contract, negotiating and executing certain contract modifications, determining whether exceptions to requirements for submission of certified cost or pricing data apply and settling certain defective pricing issues. A PCO will not normally be involved in a contract termination (usually handled by a TCO). In many agencies, particularly those with decentralized contracting offices, all of the contracting officer functions are handled by the same person.

[Ref. 2:p. 310]

11. PROPERTY ADMINISTRATOR

An authorized representative of the Contracting Officer (CO) assigned to administer contract requirements and obligations relating to Government property (FAR 45.501).

B. FILES AND FORMS USED IN THE CONTRACT CLOSEOUT PROCESS

This section will discuss the people and the various files involved in the process and the part they play. Personnel involved in the contract closeout process include:

1. **CONTRACT FILE** - "Contract Files" are discussed in FAR 4.8. The purpose of files is to retain information that is to "be sufficient to constitute a complete history of the transaction for the purpose of -

- Providing a complete background as a basis for informed decisions at each step in the acquisition process;
- Support actions taken.
- Provide information for reviews and investigations.
- Furnishing essential facts in the event of litigation."

But there are a lot of different or specialized contract files. The FAR provides for three broad categories of contract files. They include:

- A file for canceled solicitations.
- A file for each contract.
- A file such as a contractor general file [Ref. 1:4.801].

The file for each contract is further broken down into:

- Contracting (Buying) Office Contract File.
- Contract Administration Office (CAO) Contract File.
- Paying (Finance) Office Contract File [Ref. 1:4.802].

Each of these files is defined later in this section, but most personnel should be familiar with these terms. The file for canceled solicitations and contractor general files are not usually broken down any further. Please note that the first broad category is for canceled solicitations therefore no contract file will result. Information from successful solicitations is handled in different ways. Usually the successful proposals are in the contract file, unsuccessful proposals are either:

- Filed separately and cross referenced to the contract awarded.
- If not voluminous they may be filed in with the resulting contract file.

The filing of unsuccessful proposals separately speeds up the process of their destruction by up to five years (FAR 4.805) and reduces the Government's costs for storage.

So we see that the term "contract files" is very broad in scope as used in the FAR and it encompasses more than the files for each contract awarded. Canceled solicitation files and contractor general files are also defined in FAR 4.8 as "contract files."

2. **FILE FOR CANCELED SOLICITATIONS** - Just like the name says these are buying office files where an award was not made on the basis of the solicitation, and resulting proposals, in the file. Please note that often solicitations are canceled, then modified and reissued. If this is the case, you may want to cross-reference (DD Form 1592) this file to the successful award file of the follow-on solicitation. These "contract files" are not closed like buying office or administrative office files for successful contract awards. They are also retained for a shorter period of time; FAR 4.805 states the retention period is "five years after cancellation."

3. **CONTRACTOR GENERAL FILES** - This file consists of correspondence, reports, and other documents relating not to a specific contract but to several contracts or to the contractor generally (e.g., concerning any general aspect of his capabilities, performance, procedures, or operations). The buying and/or administrative offices may have contractor general files. This file would include, as applicable; pre-award surveys, reports, correspondence, and other records documenting the contractor's capabilities, past performance, accounting system, pricing method, quality assurance procedures, labor policies, insurance programs, equal opportunity and comparable policies, programs and systems that serve as a general source of information on a contractor's current and future capability or responsibility.

These files are retained, per FAR 4.805, "until superseded or obsolete," but should be reviewed yearly. These files are not "closed" unless a company goes out of business and then it would be the CO's judgment as to whether to retain or dispose of the file. For larger contractors who do business with the Government on a continuing basis the file may stay open forever with the materials being updated on a yearly basis. Adding new information and disposing of old or outdated information.

4. CONTRACTING OFFICE CONTRACT FILE - Per FAR 4.802(a)(1): "The contracting office contract file, which shall document the basis for the acquisition and the award, the assignment of contract administration (including payment responsibilities), and any subsequent action taken by the contracting office." The FAR also prescribes in detail the contents for the "contracting office contract file" in FAR 4.803(a)(1), through (41). Remember that a "contracting office contract file" may also include the items listed in FAR 4.803(b) (1) through 20 "contract administration office contract file" and 4.803(c)(1) through (4) "Paying office contract file." This would occur where the buying office does not delegate and has its own internal finance office. But even if the buying office doesn't pay the contract they often administer the contract. While doing this the CO wears "two

hats" the PCO and ACO and must cover all 67 items in FAR 4.803(a) & (b) as applicable.

When the contracting (buying) office delegates administration to the Defense Logistics Agency (DLA) or another agency for contract administration it sets up the creation of two sets of files on the same contract, not including the paying office file (and the contractor file). The closing of contracting (buying) office and administration office contract files are linked together whereas the paying office file closes independently of other files.

5. **CONTRACT ADMINISTRATION OFFICE FILE** - Per FAR 4.802(a)(2); "The contract administration office contract file, which shall document the basis for and the performance of contract administration responsibilities." In FAR 4.803(b) and DFARS 204.803(b) the specific items to be included in the contract administration office file are set forth. Basically it's the file maintained by the Contract Administration Office (CAO) for use in administering the contract. But remember that during contract performance many official records may not be in the ACO's file such as; property, quality assurance, production, engineering, and purchasing system information. These may still be part of the "official" contract file if required by regulation. It is at closeout that these files may be put together for the first time. The closing of the buying and administrative contract files are linked together

by one form; the DD 1594 "Contract Completion Statement." This form will be discussed in detail later but it should be noted that although the buying and administrative files are closed separately they close on the same date. This date is assigned by the ACO (if delegated). If the buying activity cannot close its files within 90 days of the administrative office then the ACO assigned closeout date in block 9d is superseded by the PCO assigned date in block 10e of the DD 1594. When this happens it is important that the PCO advises the ACO so the administrative files are not closed/staged /stored and destroyed early.

6. **PAYING OFFICE CONTRACT FILE** - Whoever pays amounts on the contract must maintain a file; FAR 4.803(c) states that the paying office contract file will contain:

- Copy of the contract and any modifications
- Bills, invoices, vouchers, and supporting documents
- Record of payments and receipts
- Other pertinent documents

This is a short list compared to the 41 items for buying offices file and 20 items for the CAOs file. The finance office closes its files independently of the PCO and ACO files and does not coordinate the closing of its files with the COs. This is usually where original copies of DD 250s are maintained in the "contract file" along with progress payment

or invoice/voucher payments. The paying office contract file is closed upon final payment.

7. **CONTRACTOR FILES** - Those files kept by the contractor on Government contracts. Specific requirements would be tied to public laws, contract language, or any systems incorporated by reference through contract language. The main point about contractor files, important for contract close out, is that many times the contracting officer can get copies of documents, which are lost or destroyed within the Government, for their contract files from the contractor.

8. **DD FORM 1597-CONTRACT CLOSEOUT CHECKLIST** - This is probably the first form the CO tasked with initiating contract closeout would fill out. This form lists the major "squares" to be filled in closing a contract. If you compare the DD 1597 and FAR 4.804-5(a)(1) through (15) requirements you will see they are almost the same. The DD 1597 format has also been mechanized in many computerized contract management systems; sometimes referred to as a mechanized DD 1597 or just Contract Closeout Checklist. A new version (Nov 88) of the form was incorporated into the DFARS in DAC #88-4 and makes previous versions obsolete. The CO tasked to initiate closeout will first review the contract for applicable action items on the DD 1597; not all items apply to every contract. The CO must use his/her knowledge of the contract to determine

which items are applicable. Next, forecasted dates for completion are entered on the form or the computer. Normal closeout should take less than the time limitations in FAR 4.804-1 and indicated on line V of the DD 1597. From here a contract administrator or procurement clerk will follow-up on the action items until completed. Once all the appropriate squares are filled the responsible official (Block 9), usually the CO, signs and dates the DD 1597. It is then placed in the contract file (either by the PCO or ACO depending on who is closing the contract) as evidence that all those actions are complete.

9. DD FORM 1593 - CONTRACT ADMINISTRATION COMPLETION RECORD Referenced on the DD Form 1597, the DD 1593 is used as evidence by the CO of the completion of: (1) property, (2) plant clearance, (3) contract termination, and (4) other administrative functions. It may be used by either the ACO or PCO. The PCO may have issued a delegation limited to property or termination settlement and would send the DD 1593 to the property administrator, plant clearance officer and/or termination contracting officer in the field as needed. If a full delegation was given, the cognizant ACO would use the DD 1593 as proof of completion of the appropriate functions (property, plant clearance etc.) and place the signed DD 1593 in the Contract Administration Office file to support the DD 1597 Checklist.

10. **DD FORM 1594 - CONTRACT COMPLETION STATEMENT** This form currently serves two functions in the closeout process. DFARS 204.804-4(a)(S-70) requires the ACO to notify the PCO, on the DD Form 1594, when the contract becomes physically complete (Refer to the DFARS for specifics). When used in this capacity the DD 1594 is called an Interim Contract Completion Statement (Notice of Physical Completion). The second function remains unchanged and this is the last form a cognizant ACO, or buying activity CO, would fill out in connection with closing a contract file. The form is signed by both the ACO and PCO, if delegated, and just the PCO if not delegated. If delegated the ACO fills out blocks 1-9 and signs block 9c. The date in 9d is the date of closeout, except when the PCO cannot close his/her files within 90 days. In this case the PCO establishes the revised date in block 10e when the PCO signs in block 10d. When this happens the PCO shall communicate with the ACO to insure that both the buying and administrative files are closed on the same date. If the ACO doesn't receive any notice otherwise, the DD 1594 (with only the ACO signature) is authority to close the file.

C. PRIMARY PERSONNEL INVOLVED IN THE CONTRACTING PROCESS

1. CONTRACTING OFFICER (CO) - This can be either the PCO or ACO depending on the context and subject discussed. I will use the PCO for the buying activity CO and ACO for the field contract administration CO. The FAR doesn't use PCO only CO and ACO.

2. PROCURING CONTRACTING OFFICER (PCO) - The PCO is the person who "opens" the contract originally and it is the PCO who "closes" the contract at the end. The closing of the "contracting office contract files" can only be done at the buying activity. On occasion the PCO may designate someone else in his or her office as the "responsible official" to close files. The point is the ACO doesn't close files, and the PCO is ultimately responsible for any errors or omissions in the "contracting office files" once closed. The ACO is responsible, if delegated, for errors or omission in the "administrative office contract files" and the finance officer for any errors or omissions in the "paying office contract files". Together these two or three files form what used to be called the "Total File" or "Case File" on the contract.

3. ADMINISTRATIVE CONTRACTING OFFICER (ACO) - This is the person who receives a delegation of authority from a PCO to do specific tasks in administration of a Government contract. Regarding closeout the ACO must create a "contract

administration office file" in accordance with FAR 4.8 and DFARS 204.3 "Contract Files" (and all supplemental regulations of their activity). When the contract is physically complete the ACO (if delegated) begins the process of closing out the contract. The closing of the ACO files should be coordinated with the PCO who will begin to review his/her files for closeout. A DD Form 1597 "Contract Completion Checklist" (manual or automated) with estimated dates for all milestones should be available to the PCO. While providing the PCO with the DD 1597 "Contract Completion Checklist" is advisable it is not required by FAR or DFARS. A very recent change to the DFARS (DAC #88-6, 204.804-4 Physically Completed Contracts) requires ACOs to provide the PCO with a DD 1594 "Contract Completion Statement" partially filled out (through Line 8) to provide notice to the PCO that the contract is Physically Complete (Reference DFAR 204.804-4). Then when all the applicable "squares have been filled" on the DD 1597 "Contract Completion Checklist", the ACO would then fill out the DD 1594 "Contract Completion Statement" again, but this time fill it out through line 9; please note the ACO never fills out the complete form. The ACO will establish the date of closeout in block 9d of the DD 1594. The date established by the ACO (Block 9d) will be the date of closeout; unless the PCO is unable to close his/her files within 90 days. This is why early communication is necessary to avoid catching the PCO without enough time to close his/her files in 90 days. So

while the ACO files are physically separate from the PCO files they are not duplicate files, but when combined with the "paying office files" (which close independently upon final payment) form the complete Government "contract file".

The responsibility for closing out contracts in accordance with the "time standards" (FAR 4.804-1) falls upon the PCO who may delegate this to the ACO. So it is usually the ACO who must meet the FAR 4.804-1 "time standards" and take the "heat" if they become "overage". Once the ACO completes the DD 1594 "Contract Completion Statement" (through block 9) the "heat" is on the PCO to close his/her files within the 90 days discussed previously. Thereafter it becomes the PCO's problem and he or she must take the "heat" for overage contracts. There are many reasons why a contract may become overage, but we won't cover them here. I will state that timely closeout has received a great deal of attention since about 1987. The primary reason being the release of excess funds from the contracts. The issue of closeout can create tension between the buying and administration offices for a variety of reasons. A better understanding of both the PCO and ACO responsibilities can ease these tensions and resolve potential problems.

D. CONTRACT CLOSEOUT PROCESS

The contract closeout process begins when the contract is terminated or when the contract is physically completed,

contractor delivers and the U. S. Government accepts the supplies or services. The Federal Acquisition Regulation (FAR) lists detailed procedures for closing out contracts [Ref 1]. The office administering the contract must ensure that the following actions are completed:

1. Disposition of classified material is completed;
2. Final payment report is cleared;
3. Final royalty report is cleared;
4. There are no outstanding value engineering change proposals;
5. Plant clearance report is received;
6. Property clearance is received;
7. All interim or disallowed costs are settled;
8. Price revision is completed;
9. Subcontracts are settled by the prime contractor;
10. Prior year indirect cost rates are settled;
11. Termination docket is completed;
12. Contract audit is completed;
13. Contractor's closing statement is completed;
14. Contractor's final invoice has been submitted;
15. Contract funds review is completed and deobligation of any excess funds is recommended.

After these actions are complete, the contracting officer administering the contract ensures the contract completion statement is prepared and signed by the contractor.

The actual closeout of a contract is performed by the office administering the contract. Personnel involved in the closeout include the Procuring Contracting Officer (PCO) and the Administrative Contracting Officer (ACO), if one is assigned. The PCO and the ACO may be the same person for a specific contract. If the PCO delegates administrative functions to another activity, an ACO will be assigned. The PCO creates a contract by awarding it and is ultimately responsible for closing it, regardless of whether the administrative functions have been assigned to another activity. When an ACO is assigned to a contract, the ACO is responsible for administratively closing the contract. The ACO coordinates with all involved parties (Contractor, Government, DCAA and others) and ensures that each has submitted the appropriate contract completion forms. The ACO completes all items listed in FAR 4.804-2 (which are the same items on the DD Form 1597) and routes the Contract Administration Completion Record (DD Form 1593) to the Plant Clearance Officer and the Property Administrator for signature. When all of the actions on these forms are complete, the ACO completes the Contract Completion Statement (DD Form 1594) and forwards it to the PCO to indicate that the contract is administratively closeout. The PCO has sixty days from the date on the DD Form 1594 to complete the contract closeout process. The payment office sends their contract files to the archives, the contract administrator sends their

files to the archives and the procuring office sends their files to the archives as each of these organizations complete their part of the closeout process. The PCO verifies that all actions required by the FAR and the DFAR have been completed and then officially closes out the contract.

E. TIME STANDARDS FOR CONTRACT CLOSURE [Ref. 1]

The FAR measures closeout timeframes from the date all the property was received or the services were completed. The FAR allows the following times to closeout contracts, based on contract type:

- Firm-Fixed-Price Contracts.....six months
(excluding small purchases)
- Contracts requiring settlement
of overhead rates.....36 months
- All other contracts.....20 months

F. ALTERNATE CLOSEOUT METHODS

Two alternate methods to the "normal" contract closeout process can be used to expedite the closeout process. Quick Closeout Procedures (QCP) are explained in FAR 42.708. QCPs allow the contracting officer to negotiate the settlement of indirect costs, for a specific contract in advance of the determination of final indirect rates, under the following conditions:

- The contract is physically complete.

- The amount of the unsettled indirect costs to be allocated is relatively insignificant.
- An agreement can be reached on a reasonable amount of allocable dollars. [Ref. 1]

NARSUP 42.708 states that costs may be determined to be insignificant when they do not exceed either 15% of the total indirect costs incurred on the contract or \$500,000, whichever is less. DLA Manual 8105.1: 42.7-11 states that this procedure should be limited to small dollar balances or to instances where indirect costs applicable to any one DOD contract in one fiscal year do not exceed \$500,000.

Bilateral agreements can also be used to negotiate settlement of indirect cost rates when a contract has been terminated and the contract contains the clause 52.216-7, "Allowable Cost and Payment." Under these conditions the contracting officer can negotiate the amount of indirect costs for the contract period in which the rates have not been decided.

FEDERAL ACQUISITION REGULATION (FAR)

4.800

SUBPART 4.8—CONTRACT FILES

4.800 Scope of subpart.

This subpart prescribes requirements for establishing, maintaining, and disposing of contract files for all contractual actions. The application of this subpart to small purchases and other simplified procedures covered by Part 13 is optional. See also documentation requirements in 13.106(c).

4.801 General.

(a) The head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions.

(b) The documentation in the files (see 4.803) shall be sufficient to constitute a complete history of the transaction for the purpose of—

(1) Providing a complete background as a basis for informed decisions at each step in the acquisition process;

(2) Supporting actions taken;

(3) Providing information for reviews and investigations; and

(4) Furnishing essential facts in the event of litigation or congressional inquiries.

(c) The files to be established include—

(1) A file for cancelled solicitations;

(2) A file for each contract; and

(3) A file such as a contractor general file, containing documents relating—for example—to (i) no specific contract, (ii) more than one contract, or (iii) the contractor in a general way (e.g., contractor's management systems, past performance, or capabilities).

4.802 Contract files.

(a) A contract file should generally consist of—

(1) The contracting office contract file, which shall document the basis for the acquisition and the award, the assignment of contract administration (including payment responsibilities), and any subsequent actions taken by the contracting office;

(2) The contract administration office contract file, which shall document actions reflecting the basis for and the performance of contract administration responsibilities; and

(3) The paying office contract file, which shall document actions prerequisite to, substantiating, and reflecting contract payments.

(b) Normally, each file should be kept separately; however, if appropriate, any or all of the files may be combined; e.g., if all functions or any combination of the functions are performed by the same office.

(c) Files shall be maintained at organizational levels that shall ensure—

(1) Effective documentation of contract actions;

(2) Ready accessibility to principal users;

(3) Minimal establishment of duplicate and working files;

(4) The safeguarding of classified documents; and

(5) Conformance with agency regulations for file location and maintenance.

(d) If the contract files or file segments are decentralized (e.g., by type or function) to various organizational elements or to other outside offices, responsibility for their maintenance shall be assigned. A central control and, if needed, a locator system should be established to ensure the ability to locate promptly any contract files.

(e) Contents of contract files that are proprietary or source selection information as defined in 3.104-4 shall be protected from disclosure to unauthorized persons (see 3.104-5).

4.803 Contents of contract files.

The following are examples of the records normally contained, if applicable, in contract files:

(a) *Contracting office contract file.* (1) Purchase request, acquisition planning information, and other pre-solicitation documents.

(2) Justifications and approvals, determinations and findings, and associated documents.

(3) Evidence of availability of funds.

(4) Synopsis of proposed acquisition as published in the Commerce Business Daily or reference thereto.

(5) The list of sources solicited, and a list of any firms or persons whose requests for copies of the solicitation were denied, together with the reasons for denial.

(6) Set-aside decision.

(7) Government estimate of contract price.

(8) A copy of the solicitation and all amendments thereto.

(9) Security requirements and evidence of required clearances.

(10) A copy of each offer or quotation, the related abstract, and records of determinations concerning late offers or quotations. Unsuccessful offers or quotations may be maintained separately, if cross-referenced to the contract file. The only portions of the unsuccessful offer or quotation that need be retained are—

(i) Completed solicitation sections A, B, and K;

(ii) Technical and management proposals;

(iii) Cost/price proposals; and

(iv) Any other pages of the solicitation that the offeror or quoter has altered or annotated.

(11) Contractor's contingent fee representation and other certifications and representations.

(12) Preaward survey reports or reference to previous preaward survey reports relied upon.

(13) Source selection documentation.

(14) Contracting officer's determination of the contractor's responsibility.

(15) Small Business Administration Certificate of Competency.

(16) Records of contractor's compliance with labor policies including equal employment opportunity policies.

(17) Cost or pricing data and Certificates of Current Cost or Pricing Data or a required justification for waiver.

(18) Packaging and transportation data.

(19) Cost or price analysis.

(20) Audit reports or reasons for waiver.

(21) Record of negotiation.

(22) Justification for type of contract.

(23) Authority for deviations from this regulation, statutory requirements, or other restrictions.

(24) Required approvals of award and evidence of legal review.

(25) Notice of award.

(26) The original of (i) the signed contract or award, (ii) all contract modifications, and (iii) documents supporting modifications executed by the contracting office.

(27) Synopsis of award or reference thereto.

(28) Notice to unsuccessful quoters or offerors and record of any debriefing.

(29) Acquisition management reports (see Subpart 4.6).

(30) Bid, performance, payment, or other bond documents, or a reference thereto, and notices to sureties.

(31) Report of postaward conference.

(32) Notice to proceed, stop orders, and any overtime premium approvals granted at the time of award.

(33) Documents requesting and authorizing modification in the normal assignment of contract administration functions and responsibility.

(34) Approvals or disapprovals of requests for waivers or deviations from contract requirements.

(35) Rejected engineering change proposals. These proposals may be filed separately for early disposal (see 4.805(h)).

(36) Royalty, invention, and copyright reports (including invention disclosures) or reference thereto.

(37) Contract completion documents.

(38) Documentation regarding termination actions for which the contracting office is responsible.

(39) Cross-references to pertinent documents that are filed elsewhere.

(40) Any additional documents on which action was taken or that reflect actions by the contracting office pertinent to the contract.

(41) A current chronological list identifying the awarding and successor contracting officers, with inclusive dates of responsibility.

(42) All certifications required by 3.104-9(e)(1).

(43) For contracts and contract modifications in excess of \$100,000, a record of all persons or classes of persons authorized to have access to proprietary or source selection information and, to the maximum

extent practicable, the names of all individuals within the class.

(b) *Contract administration office contract file.* (1) Copy of the contract and all modifications, together with official record copies of supporting documents executed by the contract administration office.

(2) Any document modifying the normal assignment of contract administration functions and responsibility.

(3) Security requirements.

(4) Cost and pricing data, Certificates of Current Cost or Pricing Data, cost or price analysis, and other documentation supporting contractual actions executed by the contract administration office.

(5) Preaward survey information.

(6) Purchasing system information.

(7) Consent to subcontract or purchase.

(8) Performance and payment bonds and surety information.

(9) Postaward conference records.

(10) Orders issued under the contract.

(11) Notice to proceed and stop orders.

(12) Insurance policies or certificates of insurance or references to them.

(13) Documents supporting advance or progress payments.

(14) Progressing, expediting, and production surveillance records.

(15) Quality assurance records.

(16) Property administration records.

(17) Documentation regarding termination actions for which the contract administration office is responsible.

(18) Cross reference to other pertinent documents that are filed elsewhere.

(19) Any additional documents on which action was taken or that reflect actions by the contract administration office pertinent to the contract.

(20) Contract completion documents.

(c) *Paying office contract file.* (1) Copy of the contract and any modifications.

(2) Bills, invoices, vouchers, and supporting documents.

(3) Record of payments or receipts.

(4) Other pertinent documents.

4.804 Closeout of contract files.

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) Small purchase files should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulation.

(2) Files for all firm-fixed-price contracts other than small purchases should be closed within 6 months of the month in 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.

(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.

4.804-2 Closeout of the contracting office files if another office administers the contract.

(a) Small purchase files should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulation.

(b) All other contract files shall be closed as soon as practicable after the contracting officer receives a contract completion statement from the contract administration office. The contracting officer shall ensure that all contractual actions required have been completed and shall prepare a statement to that effect. This statement is authority to close the contract file and shall be made a part of the official contract file.

4.804-3 Closeout of paying office contract files.

The paying office shall close the contract file upon issuance of the final payment voucher.

4.804-4 Physically completed contracts.

(a) Except as provided in paragraph (b) below, a contract is considered to be physically completed when—

(1)(i) The contractor has completed the required deliveries and the Government has inspected and accepted the supplies;

(ii) The contractor has performed all services and the Government has accepted these services; and

(iii) All option provisions, if any, have expired; or

(2) The Government has given the contractor a notice of complete contract termination.

(b) Facilities contracts and rental, use, and storage agreements are considered to be physically completed when—

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(1) The Government has given the contractor a notice of complete contract termination; or

(2) The contract period has expired.

4.804-5 Detailed procedures for closing out contract files.

(a) The office administering the contract 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, an initial contract funds status review shall be accomplished, and where appropriate, excess funds identified to the contracting office. When complete, the administrative closeout procedures shall ensure that—

(1) Disposition of classified material is completed;

(2) Final patent report is cleared;

(3) Final royalty report is cleared;

(4) There is no outstanding value engineering change proposal;

(5) Plant clearance report is received;

(6) Property clearance is received;

(7) All interim or disallowed costs are settled;

(8) Price revision is completed;

(9) Subcontracts are settled by the prime contractor;

(10) Prior year indirect cost rates are settled;

(11) Termination docket is completed;

(12) Contract audit is completed;

(13) Contractor's closing statement is completed;

(14) Contractor's final invoice has been submitted; and

(15) Contract funds review is completed and deobligation of any excess funds is recommended.

(b) When the actions in paragraph (a) above have been verified, the contracting officer administering the contract shall ensure that a contract completion statement, containing the following information, is prepared:

(1) Contract administration office name and address (if different from the contracting office).

(2) Contracting office name and address.

(3) Contract number.

(4) Last modification number.

(5) Last call or order number.

(6) Contractor name and address.

(7) Dollar amount of excess funds, if any.

(8) Voucher number and date, if final payment has been made.

(9) Invoice number and date, if the final approved invoice has been forwarded to a disbursing office of another agency or activity and the status of the payment is unknown.

(10) A statement that all required contract administration actions have been fully and satisfactorily accomplished.

(11) Name and signature of the contracting officer.

(12) Date.

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4.902

(c) When the statement is completed, the contracting officer shall ensure that—

(1) The signed original is placed in the contracting office contract file (or forwarded to the contracting office for placement in the files if the contract administration office is different from the contracting office); and

(2) A signed copy is placed in the appropriate contract administration file if administration is performed by a contract administration office.

4.805 Disposal of contract files.

Agencies shall prescribe procedures for the handling, storing, and disposing of contract files. However, such procedures shall include provisions that the documents specified below shall not be destroyed before the times indicated:

Document	Retention Period
(a) Records pertaining to exceptions or protests, claims for or against the United States, investigations, cases pending or in litigation, or similar matters.	Until final clearance or settlement, or until the retention period otherwise specified for the document in paragraphs (b) through (e) below is completed, whichever is later.
(b) Signed originals of (1) contracts and (2) modifications thereto.	6 years and 3 months after final payment.
(c) Reserved.	
(d) Signed originals of justifications and approvals and determination and findings required by Part 6, and copies of supporting documents and data.	6 years and 3 months after final payment.
(e) Signed originals of small purchases and modifications thereto and construction contracts under \$2,000.	3 years after final payment.
(f) All unsuccessful offers or quotations that pertain to contracts below the appropriate small purchase limitation in Part 13.	Retain 1 year after date of award or until final payment, whichever is later, but if the contracting officer determines that the files have future value to the Government, retain as long as advisable.
(g) Contract status (progressing), expediting, and production surveillance records.	6 months after final payment.
(h) Rejected engineering change proposals.	6 months after final payment.
(i) Labor compliance records, including equal employment opportunity records.	3 years after final payment.
(j) Documents pertaining generally to the contractor as described at 4.801(c)(3).	Until superseded or obsolete.

Document	Retention Period
(k) Records or documents other than those in paragraphs 4.805(a)-(j) above pertaining to contracts below the appropriate small purchase limitation in Part 13.	1 year after final payment.
(l) Records or documents other than those in paragraphs 4.805(a)-(k) above pertaining to contracts above the appropriate small purchase limitation in Part 13.	6 years and 3 months after final payment.
(m) Files for cancelled solicitations (see 4.801(c)(1)).	5 years after cancellation.
(n) Solicited and unsolicited unsuccessful offers and quotations above the appropriate small purchase limitation in Part 13.	
(1) When filed separately from contract case files	Until contract completion date.
(2) When filed with contract case files.	6 years and 3 months after final payment.

SUBPART 4.9—INFORMATION REPORTING TO THE INTERNAL REVENUE SERVICE

4.900 Scope of subpart.

This subpart provides policies and procedures applicable to reporting contract and payment information to the Internal Revenue Service (IRS).

4.901 Definitions.

"Common parent," as used in this subpart, means that corporate entity that owns or controls an affiliated group of corporations that files its Federal income tax returns on a consolidated basis, and of which the offeror is a member.

"Corporate status," as used in this subpart, means a designation as to whether the offeror is a corporate entity, an unincorporated entity (e.g., sole proprietorship or partnership), or a corporation providing medical and health care services.

"Taxpayer Identification Number (TIN)," as used in this subpart, means the number required by the IRS to be used by the offeror in reporting income tax and other returns.

4.902 Contract information.

(a) 26 U.S.C. 6050M, as implemented in 26 CFR, requires heads of Federal executive agencies to report certain information to the IRS.

(b)(1) The required information applies to contract modifications—

- (i) Increasing the amount of a contract awarded before January 1, 1989, by \$50,000 or more; and
- (ii) Entered into on or after April 1, 1990.

(2) The reporting requirement also applies to certain contracts and modifications thereto in excess of \$25,000 entered into on or after January 1, 1989.

4.903

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(c) The information to report is—

- (1) Name, address, and the Taxpayer Identification Number (TIN) of contractor;
- (2) Name and TIN of common parent (if any);
- (3) Date of the contract action;
- (4) Amount obligated on the contract action; and
- (5) Estimated contract completion date.

(d) Transmit the information to the IRS through the Federal Procurement Data System (see subpart 4.6 and implementing instructions).

4.903 Payment information.

(a) 26 U.S.C. 6041 and 6041A, as implemented in 26 CFR, in part, require payors, including Federal Government agencies, to report to the IRS payments made to certain contractors.

(b) The following payments are exempt from this reporting requirement:

- (1) Payments to corporations. However, payments to corporations providing medical and health care services or engaged in the billing and collecting of payments for such services are not exempted.
- (2) Payments for bills for merchandise, telegrams, telephone, freight, storage, and similar charges.
- (3) Payments of income required to be reported on

an IRS Form W-2 (e.g., contracts for personal services).

(4) Payments to a hospital or extended care facility described in 26 CFR 501(c)(3) that is exempt from taxation under 26 CFR 501(a).

(5) Payments to a hospital or extended care facility owned and operated by the United States, a state, the District of Columbia, a possession of the United States, or a political subdivision, agency, or instrumentality of any of the foregoing.

(6) Payments for any contract with a state, the District of Columbia, a possession of the United States, or a political subdivision, agency, or instrumentality of any of the foregoing.

(c) The following information is required to provide reports to the IRS:

- (1) Name, address, and TIN of contractor.
- (2) Corporate status (see 4.901).

(d) Transmit to paying offices the information specified in 4.203.

4.904 Solicitation provision.

The contracting officer shall insert the provision at 52.204-3, Taxpayer Identification, in solicitations, unless the TIN of each offeror has previously been obtained and is known.

SUBPART 204.8--CONTRACT FILES

204.802 Contract files.

Official contract files shall consist of--

- (1) Only original, authenticated or conformed copies of contractual instruments--
 - (i) "Authenticated copies" means copies that are shown to be genuine in one of two ways--
 - (A) Certification as true copy by signature of an authorized person; or
 - (B) Official seal.
 - (ii) "Conformed copies" means copies that are complete and accurate, including the date signed and the names and titles of the parties who signed them.
- (2) Signed or official record copies of correspondence, memoranda, and other documents.

204.804 Closeout of contract files.

Normally, the closeout date for contract files is the date in Block 9d on the DD Form 1594, Contract Completion Statement, or in columns 59-65 on the PK9. If the contracting office must do a major closeout action that will take longer than three months after the date shown in Block 9d of the DD Form 1594, or in columns 59-65 of the PK9--

- (1) The closeout date for file purposes will be the date in Block 10e of the DD Form 1594 or the date of the closeout statement executed when the MILSCAP PK9 is received.
- (2) The contracting office shall notify the contract administration office of the revised closeout date by either sending a copy of the completed DD Form 1594 or by preparing a MILSCAP Format Identifier PKZ, Contract Closeout Extension.

204.804-1 Closeout by the office administering the contract.

- (1) For contracting offices administering their own contracts, locally developed forms or statement of completion may be used instead of the DD Form 1594, Contract Completion Statement. Whichever method is used, the form shall be retained in the official contract file.
- (2) For contracts valued above the small purchase threshold, prepare a DD Form 1597, Contract Closeout Check List, (or agency equivalent) to ensure that all required contract actions have been satisfactorily accomplished.

204.804-2 Closeout of the contracting office files if another office administers the contract.

- (1) When an office, other than the contracting office, administers the contract, it shall--
 - (i) Provide the contracting office an interim contract completion statement when the contract is physically completed and accepted. This notice may be in the form of either a DD Form 1594, Contract Completion Statement, or a MILSCAP Format Identifier

Part 204--Administrative Matters

Interim PK9, Contract Physical Completion. When the DD Form 1594 is used, the contracting officer--

(A) Annotates Block 8, Remarks, with--

- (1) "Notice of Physical Completion;"
- (2) Final acceptance date;
- (3) Signature of a responsible official; and
- (4) Date signed.

(B) Does not complete Blocks 9(b), (c), and (d) at this time;

- (ii) Prepare a DD Form 1597, Contract Closeout Check List, if necessary, to determine that all the required actions have been done;
- (iii) Initiate DD Form 1593, Contract Administration Completion Record, if necessary to obtain statements from other organizational elements that they have completed the actions they are responsible for; and
- (iv) Upon final payment--

(A) Process the DD Form 1594 with Blocks 1 through 9 completed or the MILSCAP Format Identifier PK9 verifying that all contract administration office actions have been done; and

(B) Send the original of the DD Form 1594 or the MILSCAP Format Identifier PK9 to the contracting office, and file a copy in the official contract file.

(2) If the administrative contracting officer (ACO) cannot closeout a contract within the specified time period (see FAR 4.804-1), the ACO must notify the procuring contracting officer (PCO) within 45 days after the expiration of the time period of--

(i) The reasons for the delay; and

(ii) New target date for closeout. If MILSCAP procedures apply, the ACO shall use the MILSCAP Format Identifier PKX, Unclosed Contract Status, to provide this notice to the PCO.

(3) If the contract still is not closed out by the new target date, the ACO shall again notify the PCO with the reasons for delay and new target date. If MILSCAP procedures apply, continue to use the MILSCAP Format Identifier PKX, Unclosed Contract Status, to provide this notice.

204.805 Disposal of contract files.

(1) The sources of the period for which official contract files must be retained are General Records Schedule 3 (Procurement, Supply, and Grant Records) and General Records Schedule 6 (Accountable Officers' Accounts Records). Copies of the General Records

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Schedule may be obtained from the National Archives and Records Administration, Washington, DC 20408.

- (2) Deviations from the periods cannot be granted by the Defense Acquisition Regulations Council. Forward requests for deviations to both the General Accounting Office and the National Archives and Records Administration.
- (3) Hold completed contract files in the office responsible for maintaining them for a period of 12 months after completion. After the initial 12 month period, send the records to the local records holding or staging area until they are eligible for destruction. If no space is available locally, transfer the files to the General Services Administration Federal Records Center that services the area.
- (4) Duplicate or working contract files should contain no originals of materials that properly belong in the official files. Destroy working files as soon as practicable once they are no longer needed.
- (5) Retain pricing review files, containing documents related to reviews of the contractor's price proposals, subject to certification of cost or pricing data (see FAR 15.804-2), for six years. If it is impossible to determine the final payment date in order to measure the six year period, retain the files for nine years.

CONTRACT ADMINISTRATION COMPLETION RECORD			1. SUSPENSE DATE		
2. ROOM:			3. CONTRACT NUMBER		
			AS AMENDED BY MODIFICATIONS NUMBERED THROUGH _____		
4. TO: (Organizational element performing function checked below)			5. NAME OF CONTRACTOR		
<p>The contract identified above has been physically completed (i.e., all required deliveries or shipments have been made and/or services performed or terminated).</p> <p>Request column 6c or 6d and 6e and 6f be completed with regard to the function checked in column 6a and this form returned by the suspense date indicated in item 1. If only an anticipated date of completion of required actions can be given the suspense date, a subsequent advice of final action is requested.</p> <p>If contract being closed is classified, send signed copy of this form marked "INFORMATION COPY" to cognizant Industrial Security Office.</p>					
STATUS OF ACTION(S)					
6a	FUNCTION	6c "X" IF REQUIRED ACTION(S) COMPLETED	6d ANTICIPATED DATE FOR COMPLETION OF ACTION(S)	SIGNATURE	DATE
	PROPERTY ADMINISTRATION				
	PLANT CLEARANCE				
	CONTRACT TERMINATION				
	OTHER (Specify)				
7. REMARKS					
8. TYPED NAME OF RESPONSIBLE OFFICIAL			9. SIGNATURE		10. DATE

CONTRACT COMPLETION STATEMENT		
1. POOA: (Contract Administration Office)	2a. PN NUMBER 2b. LAST MODIFICATION NUMBER 2c. CALL/ORDER NUMBER	
3. TO: Name and Address of Purchasing Office and Office Symbol of the PCO, if known	4. CONTRACT IDENTITY CODE AND ADDRESS 5. EXCESS FUNDS <input type="checkbox"/> YES <input type="checkbox"/> NO \$ _____	
6a. IF FINAL PAYMENT HAS BEEN MADE, COMPLETE ITEMS 6a., AND 6c.	6b. VOUCHER NUMBER	6c. DATE
7a. IF FINAL APPROVED INVOICE FORWARDED TO D.O. OF ANOTHER ACTIVITY AND STATUS OF PAYMENT IS UNKNOWN, COMPLETE ITEMS 7b. AND 7c.	7b. INVOICE NUMBER	7c. DATE FORWARDED
8. REMARKS 		
9a. ALL ADMINISTRATION OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED THIS INCLUDES FINAL SETTLEMENT IN THE CASE OF A PRICE REVISION CONTRACT		
9a. TYPED NAME OF RESPONSIBLE OFFICIAL	9b. SIGNATURE	9c. DATE
FOR PURCHASING OFFICE USE ONLY		
10a. ALL PURCHASING OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED CONTRACT FILE OF THIS OFFICE IS MERELY CLOSED AS OF. <input type="checkbox"/> DATE SHOWN IN ITEM 9c. ABOVE <input type="checkbox"/> DATE SHOWN IN ITEM 10c. BELOW (Check this box only if final completion of any significant purchasing office action occurs more than three months beyond close-out date shown in item 9c. above. In such cases, submit a copy of the completed form upon final accomplishment of all purchasing office actions to the contract administration office. (Upon receipt, the contract administration office shall enter its contract file close-out date accordingly.)		
10a. REMARKS 		
10a. TYPED NAME OF RESPONSIBLE OFFICIAL	10b. SIGNATURE	10c. DATE

DD Form 1504, FEB 70

REPLACES EDITION OF 1 JUN 68 WHICH IS OBSOLETE

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Part 253--Forms

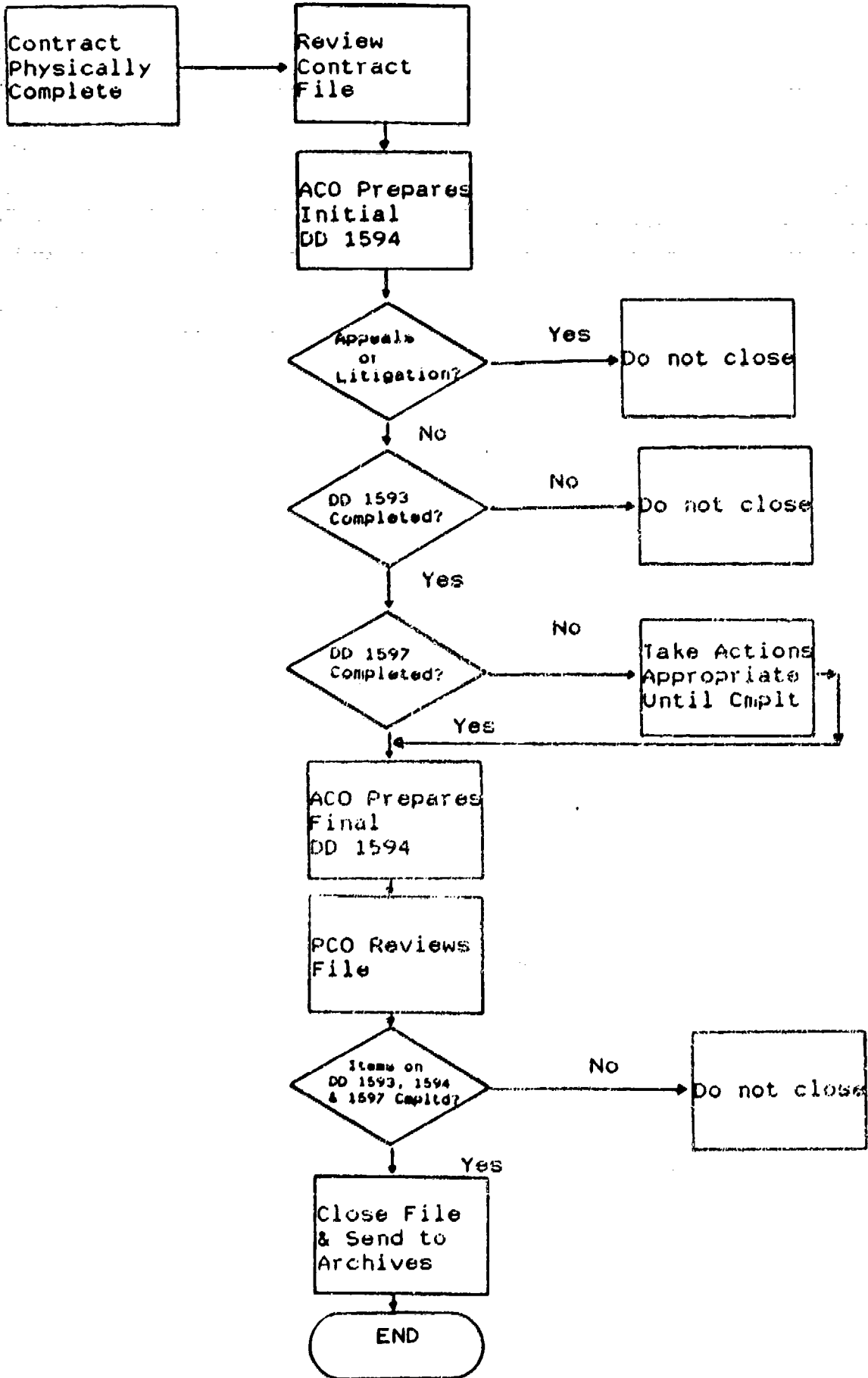
CONTRACT CLOSEOUT CHECK-LIST <small>(Continue on reverse for any comments)</small>				1. CONTRACT NUMBER	
2. NAME OF CONTRACTOR				3. CONTRACT MODIFICATION NUMBER(S) (if applicable)	
4. DATE OF PHYSICAL COMPLETION (YYMMDD)	6. MILESTONES / CALENDAR MONTHS AFTER PHYSICAL COMPLETION (DAR 4.804-1)			7. FORECAST COMPLETION DATE (YYMMDD)	8. DATE ACTION COMPLETED (YYMMDD) (NA if not applicable)
5. ACTION ITEMS	Category 1	Category 2	Category 3		
a. DISPOSITION OF CLASSIFIED MATERIAL COMPLETED					
b. FINAL PATENT REPORT SUBMITTED (Inventions Disclosed) <small>DD 883</small>					
c. FINAL ROYALTY REPORT SUBMITTED					
d. FINAL PATENT REPORT CLEARED (Inventions Disclosed)					
e. FINAL ROYALTY REPORT CLEARED					
f. ISSUANCE OF REPORT OF CONTRACT COMPLETION					
g. NO OUTSTANDING VALUE ENGINEERING CHANGE PROPOSAL (VECP)					
h. PLANT CLEARANCE REPORT RECEIVED <small>DD 1883</small>					
i. PROPERTY CLEARANCE RECEIVED <small>DD 1883</small>					
j. SETTLEMENT OF ALL INTERIM OR DISALLOWED COSTS (DCAA Form 1)					
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 <small>DD 1883</small>					
q. CONTRACT AUDIT COMPLETED					
r. CONTRACTOR'S CLOSING STATEMENT COMPLETED					
s. FINAL VOUCHER SUBMITTED <small>DF 1824</small>					
t. FINAL PAID VOUCHER RECEIVED <small>DF 1824</small>					
u. FINAL REMOVAL OF EXCESS FUNDS RECOMMENDED					
v. ISSUANCE OF CONTRACT COMPLETION STATEMENT (Or MILSCAP Form or Alternative PCS)	6	36	20		
w. OTHER REQUIREMENTS COMPLETED (Specify)					
8. RESPONSIBLE OFFICIAL					
a. TYPED NAME (Last, First, Middle Initial)			b. TITLE		
c. SIGNATURE (Sign only upon completion of all actions.)				d. DATE SIGNED (YYMMDD)	

DD Form 1587, NOV 88

Previous editions are obsolete.

1248 B

APPENDIX B



LIST OF REFERENCES

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the Contract Closeout Process at the Defense Management District Mid-Atlantic," Audit Report, March 1991.

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13. Interview between Ms. Ginette Lameraind, Contracting Officer, Naval Regional Contracting Center, Long Beach and author, 22 October 1993.

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15. Interview between Mr. Gary Thomas and Mr. George Malarkey, DCMAO, San Diego, CA, and author, 13 October 1993.

16. Interview between Ms. Judy Chin, DCMAO, El Segundo, CA, and author, 22 October 1993.

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20. Bristow, Michael B. and Moed, Joseph E., "An Analytical Evaluation of Procedures for Closing Cost-Type Contracts," Master's Thesis, Air Force Institute of Technology, Colorado Springs, CO, June 1979.

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