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THESIS

A CASE STUDY OF THE CONTRACT CLOSEOUT PROCESS AT DEFENSE CONTRACT MANAGEMENT COMMAND LOCKHEED MARTIN MISSILES AND SPACE

by

Leigh M. Bandy

June 1998

Thesis Advisor:	David A. Smith
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The primary purpose of this thesis is to provide a case analysis of the contract closeout process at DCMC Lockheed Martin (LM). The contract closeout policies and procedures at DCMC Headquarters are analyzed to develop a basis of comparison for DCMC LM. Secondary objectives include analysis of factors affecting untimely contract closeout, both DCMC-wide and at DCMC LM, and comparison of metrics results to analyze DCMC LM's progress in contract closeout. The current DCMC LM initiatives leading to increased contract closeout efficiency are discussed, and alternative closeout metrics are investigated. Finally, recommendations are made on the applicability of the DCMC LM initiatives to other organizations throughout DCMC.

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Submitted in partial fulfillment of the
requirements for the degree of

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The primary purpose of this thesis is to provide a case analysis of the contract closeout process at DCMC Lockheed Martin (LM). The contract closeout policies and procedures at DCMC Headquarters are analyzed to develop a basis of comparison for DCMC LM. Secondary objectives include analysis of factors affecting untimely contract closeout, both DCMC-wide and at DCMC LM, and comparison of metrics results to analyze DCMC LM's progress in contract closeout. The current DCMC LM initiatives leading to increased contract closeout efficiency are discussed, and alternative closeout metrics are investigated. Finally, recommendations are made on the applicability of the DCMC LM initiatives to other organizations throughout DCMC.

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I. INTRODUCTION

A. BACKGROUND

This thesis presents a management case analysis of the contract closeout process at Defense Contract Management Command (DCMC) Lockheed Martin Missiles and Space, hereafter referred to as DCMC LM. The Commander of DCMC LM stated that because of the numerous issues and difficulties associated with contract closeout, it had become one of their top work priorities [Ref. 55]. This thesis examines the factors leading to late contract closeout at DCMC LM, and discusses the initiatives the Command has implemented to improve its contract closeout process.

B. PURPOSE

The primary purpose of this thesis is to examine the major factors leading to late contract closeout at DCMC LM, and to analyze the initiatives which have allowed them to improve their closeout process. The factors and the initiatives implemented at DCMC LM are compared to DCMC-wide data to determine the impact of the DCMC Headquarters policies and actions on the success of DCMC LM.

This thesis has several secondary objectives. The current DCMC contract closeout policies and procedures are assessed to determine their impact on the late contract closeout throughout the organization. The alternative metrics used by DCMC LM for contract closeout are studied to analyze their applicability to the contract closeout process. Finally, recommendations are made on whether DCMC LM's initiatives can be emulated by other DCMC commands.

C. RESEARCH QUESTIONS

The primary research question is: **What are the major factors that led to late contract closeout at DCMC Lockheed Martin, what are the impacts of those late closeouts, and what are some of the possible solutions to improve the contract closeout process?**

In support of the primary question, the following subsidiary questions will be addressed:

- What are the current contract closeout policies and procedures in DCMC?
- To what extent are the DCMC contract closeout policies and procedures practiced at DCMC LM?
- What are the metrics that DCMC uses to monitor contract closeout performance, and what do those metrics suggest about the contract closeout process?
- What are the contract closeout metrics used at DCMC LM and how do they compare to the metrics at DCMC?
- What are the major factors within the overall DCMC organization that contribute to late contract closeout?
- What are the major factors in DCMC LM that contribute to late contract closeout, and how do they compare to organization-wide factors?
- What specific actions and initiatives are being implemented in DCMC to improve the contract closeout process, and to what extent might these improve the process at DCMC LM?
- What specific contract closeout actions and initiatives are being used at DCMC LM, and what other actions could help them improve the contract closeout process?

D. SCOPE OF THE THESIS

This thesis includes a review of past and current legislation, regulations, policies and guidance regarding contract closeout. The metrics used for contract closeout at DCMC are analyzed and discussed, and an assessment of DCMC LM's contract closeout processes and metrics is conducted. The current actions and initiatives being implemented within the entire DCMC Command to improve the contract closeout process are compared to the DCMC LM initiatives and actions. Finally, recommendations are made on how to improve the contract closeout process at other DCMC organizations based on DCMC LM's success.

The thesis includes data collected with regard to both fixed-price (FP) and cost-reimbursable (CR) contracts. Metrics such as open overhead negotiations, percent of overage contracts, and funds at risk of canceling are examined to provide analysis of DCMC LM's contract closeout process.

E. METHODOLOGY

The first step in the research effort was an extensive review of current literature. Information was collected from a search of books, journals, defense publications, and Internet resources. A complete review of the current Federal Acquisition Regulation (FAR) Parts 4 and 42, as well as DCMC's One Book, was conducted to assess the regulatory requirements for contract closeout functions. Public Laws 84-798 and 101-510 were studied to determine the time requirements for use of obligated Federal Government funds. DCMC Headquarters policy, tasking and information memorandums were reviewed to assess their impact on the contract closeout process throughout the

organization. Previous theses on contract closeout were also studied to determine historical factors for late contract closeout.

The second step in the research process was collection of metrics from both DCMC Headquarters and DCMC LM to analyze factors for late contract closeout, as well as the current progress being made in the closeout process. Additionally, interviews were conducted with contracting officers from DCMC Headquarters, DCMC District West, and DCMC LM; auditors from the Defense Contract Audit Agency (DCAA); and contract managers from the defense industry, to provide additional insight into the factors causing delayed contract closeout. This information was used to supplement and clarify the findings discovered in the relevant literature. The information derived from the literature review, interviews and Command metrics were analyzed to develop conclusions about the causes of late contract closeout, as well as to prepare recommendations for DCMC.

F. ORGANIZATION

The case study is divided into six chapters. In this chapter, the scope and direction of the study is identified, and a methodology for data collection, analysis and presentation is described.

Chapter II provides an overview of contract closeout in the Department of Defense (DoD). The chapter includes basic definitions commonly used in the contract closeout process. A discussion of the applicable laws, regulations, policies and guidance used in DoD follows.

Chapter III examines the contract closeout process itself. The major participants involved in contract closeout are introduced, and the functions required to close contracts

are studied, including analysis of the fifteen steps listed in the FAR. The chapter concludes with a discussion of the alternative closeout procedures.

Chapter IV examines the contract closeout process at DCMC, including discussion of DCMC's regulatory guidance and policies, and current contract closeout processes and procedures specific to DCMC. Factors causing late contract closeout are analyzed, and data are presented to analyze DCMC's current progress in the contract closeout process. Finally, current DCMC actions and initiatives to improve the closeout process are considered.

Chapter V analyzes the contract closeout process at DCMC LM. Data are presented for DCMC LM to compare results of recent closeout metrics to the DCMC-wide data. Major factors contributing to late closeout on past contracts are assessed. Finally, the current initiatives which DCMC LM has implemented are studied to analyze their impact on the success of the organization's closeout process.

Chapter VI provides conclusions and recommendations based on the evidence presented, including answers to the primary and subsidiary research questions. These conclusions include a determination of whether DCMC LM's initiatives can be emulated at other DCMC organizations to improve their contract closeout process. The thesis concludes with identification of areas for further research.

II. CONTRACT CLOSEOUT IN THE DEPARTMENT OF DEFENSE

A. INTRODUCTION

The contract closeout process within DoD has been described as, "...one of the most important services provided and one with which customers are least satisfied" [Ref. 36: p. 15-2]. There are several ramifications of late contract closeout. Delayed closeout can cause Government-Furnished Property (GFP), Government-Furnished Equipment (GFE) or Contractor-Acquired Property (CAP) to remain at the contractor's plant, which increases the potential for loss, abuse, or poor utilization of those assets. Late closeouts increase the work backlog at organizations, leading to disruption of normal operations as the organization is forced to shift resources to reduce its backlog. The detection of waste, fraud or abuse by the contractor may also be delayed if the contract closes late. Additionally, there may be several monetary impacts for late contract closeout. [Ref. 58]

DCMC LM has experienced contract closeout problems for many years. This case study explores those problems in order to uncover the major factors involved in late contract closeout, and examines the initiatives being implemented by DCMC LM to improve its contract closeout process.

B. DEFINITIONS

Before studying the contract closeout process in detail, terms used throughout the thesis are defined. These definitions have been obtained from a search of the literature, regulations, and publications.

1. Active Contract

An active contract is defined as a contract on which acceptance of supplies, performance of services, or statement of work requirements is not complete; or, the option period has expired [Ref. 35: Secs. 1.5.2.11 and 2.1.6.2]. A contract moves from an active status to a physically complete status when the products or services have been delivered by the contractor and accepted by the Government.

2. Administrative Contracting Officer

The Administrative Contracting Officer (ACO) is a contracting officer who administers contracts in accordance with delegated functions [Ref. 39: Sec. 2.101]. An ACO does most of his or her work after the Procuring Contracting Officer (PCO) has awarded the contract, and is normally responsible for most aspects of the contract closeout process. The ACO is the principal authority on all contract closeout matters. [Ref. 50: p. 11]

3. Administratively Complete Contract

"Administratively complete" means that the ACO has completed all of the actions required for contract closeout, i.e., the items listed on the DD Form 1597, "Contract Closeout Checklist." The DD Form 1597 is shown in Appendix A. Most ACOs also use DD Form 1594, "Contract Completion Statement," to notify the PCO when the contract is physically complete and to provide notice that the required closeout actions are also complete. [Ref. 52: p. 9] The DD Form 1594 is presented in Appendix B.

4. Closed Contract

Contracts exceeding the Simplified Acquisition Threshold (SAT) of $100,000 are closed when the ACO signs the DD Form 1594. The Contracting Officer will sign this form only after the contract becomes physically complete and all administrative actions are completed, including final payment to the contractor. Contracts pending appeal before the Armed Services Board of Contract Appeals (ASBCA), Government Services Board of Contract Appeals (GSBCA), General Accounting Office (GAO), in litigation, or, in the process of a termination cannot be closed. [Ref. 52: p. 8]

5. Date Physically Complete

The date physically complete is the date the Government accepts delivery of the final goods or services under the terms of the contract. Government acceptance of goods and services are formalized through completion of the DD Form 250. Contract closeout time limits begin on the date the form is signed. [Ref. 4: p. 14]

6. Overage Contract

An overage contract is a contract which has passed its statutory or regulatory time limits for closeout. The FAR provides time limits for contract closeout for Firm-Fixed-Price (FFP), CR and other types of contracts based on the date of physical completion. [Ref. 56: p. 194] The time limits for contract closeout are discussed in Chapter III.

7. Physically Complete Contract

A contract can be described as physically complete when both the Government and the contractor agree to the following conditions:

- The contractor has completed the required deliveries and the Government has inspected and accepted them (including the Certificate of Completion);
- The contractor has performed all services and the Government has accepted such services;
- All options, if any, have expired; or
- The Government has given the contractor a notice of complete termination. [Ref. 39: Sec. 4.804-4]

8. Procuring Contracting Officer

A Procuring Contracting Officer (PCO) is a contracting officer in DoD who awards contracts on behalf of the U.S. Government. Generally, after contract award, the PCO delegates contract administration activities to an ACO. The PCO is usually involved in only some of the contract closeout actions unless working in a decentralized office, where he or she performs all contract actions, including administrative contracting duties. [Ref. 50: p. 310]

9. Unliquidated Obligation

Unliquidated Obligations (ULOs) are appropriated funds that have been obligated to a contract, but have not been paid to the contractor nor deobligated from the contract [Ref. 4: p. 15]. ULOs may occur as the result of underliquidation of progress payments to the contractor, cost underruns by the contractor, descoping the contract, changes or modifications which have changed the contract costs, or other cost or price changes.

C. LAWS, REGULATIONS, POLICY AND GUIDANCE GOVERNING CONTRACT CLOSEOUT

A myriad of laws, regulations, policies and guidance govern contract closeout. The legislation related to contract closeout imposes time limitations on funds used for

public procurements. The FAR provides regulations for closeout requirements, time allowances and disposition of closed files, as well as a list of contract closeout steps commonly performed [Ref. 39: Sec. 4.804-5]. The FAR also provides conditions for use of alternative closeout procedures to expedite the closeout process [Ref. 39: Sec. 42.708]. The Defense Federal Acquisition Regulation Supplement (DFARS) lists requirements for closing out contracts specifically within DoD. Finally, DCMC publishes policy and guidance through its One Book. This section describes the contract closeout legislation, regulations, policies and guidance.

1. Public Law 84-798

Prior to the passage of Public Law 101-510 in 1991, Public Law 84-798 provided rules for using appropriated funds to pay for Government acquisition contracts. This law, passed in 1956, allowed all Federal account funds to remain "active" for two years after the last year they were obligated. Once this time threshold was reached, the funds were classified as "expired." [Ref. 52: p. 73]

At the end of the two-year "expired" period, any remaining funds in the accounts were then labeled "lapsed." Those funds were merged with balances of the same appropriation's newer accounts into what was called the merged or "M" account. Dollars transferred to the "M" accounts were available indefinitely to pay obligations. This policy allowed Government contracting officers to recover all original appropriations for their contracts without fear of losing the funds due to time constraints. [Ref. 52: p. 73] This flexibility of use was eliminated with the passage of Public Law 101-510, discussed next.

2. Public Law 101-510

Under this new legislation, which Congress passed as the Fiscal Year 1991 Appropriation Act, the "M" account and other merged surplus funds accounts were abolished. Instead of allowing "M" accounts, Congress established a system of fixed appropriations, which in effect made appropriations available only for a specific period of time. At the end of the last year of the appropriation, the funds are now designated as "expired." [Ref. 42: p. 7]

Once expired, the funds must be used within five years. Expired funds not used within that time period are canceled and charged against a current appropriations account. Under Public Law 101-510, merged accounts are no longer available to pay obligations for old contracts. [Ref. 42: p. 9]

The impact of Public Law 101-510 on Government contracts is significant. If the ACO does not deobligate contract funds containing ULOs within five years after they were last appropriated, those dollars will be charged against the procurement organization's current appropriations budget. This reduces current expenditures by the amount of the ULOs. Although the law allowed a transition period for old contracts, that period ended in 1993 [Ref. 52: p. 74]. If a contract still has available funds, and those funds are not deobligated or used within five years of their last year of appropriations, they will be charged against the current funding requirements of the procuring organization.

The ramifications of Public Law 101-510 become especially important for cost-type contracts, where indirect cost rates are often not settled with the contractor until

many years after contract completion. If those indirect rates are not settled and the original appropriations used within the five-year expiration period, the Government will have to pay for those old contracts with current funds when they finally settle. Current funds are normally taken from new acquisitions. [Ref. 37]

3. Federal Acquisition Regulation

The FAR provides most of the regulatory direction for contract closeout within DoD. The 15 steps listed below require the contracting officer responsible for contract closeout to 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 stated 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. [Ref. 39: Sec. 4.805]

The FAR also provides time requirements for the closeout of physically complete contracts; procedures for closeout if the contract must be closed by an office other than the procuring office; and storage, handling, and disposition instructions for completed contract files. Each of the 15 contract closeout steps, along with closeout time limitations, are presented in Chapter III.

In order to expedite contract closeout in certain situations, the FAR allows use of alternative closeout procedures. The contracting officer responsible for closing the contract may use the Quick Closeout Procedures if the following three conditions are met:

(1) The contract is physically complete;
(2) The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant; and
(3) Agreement can be reached on a reasonable estimate of allocable dollars. [Ref. 39: Sec. 42.708]

4. Defense Federal Acquisition Regulation Supplement

The DFARS is used primarily as a supplement to the FAR for contract closeout, emphasizing required actions within DoD. The DFARS requires the ACO to inform the PCO within 45 days after the FAR time requirement has expired for late closeouts. The ACO must state the reasons for the delay and set a new closeout target date. Additionally, the DFARS provides detailed instructions on disposition of closed contract files. [Ref. 34: Sec. 204.804-2 and Sec. 204.805]

5. The One Book

The One Book, or DLAD 5000.4, provides contract closeout guidance for DCMC contracting officers [Ref. 10]. DCMC divides the contract closeout functions down into four major groups: (1) Termination for Convenience actions, (2) the Contract Closeout Process and Final Payment Procedures, (3) the Patents and Royalties clearing process, and (4) Final Overhead Rates procedures. Additional information relating to closeouts can be found in Section 4.7 (Property) for contracts requiring disposition of Government property. Each major process and its corresponding section also contain a process flowchart to aid contracting officers in their closeout efforts.

DCMC provides its ACOs guidance on contract closeout in the form of policy memorandums, information memos, and tasking letters. DCMC has published several memorandums concerning contract closeout in the One Book since 1995. [Ref. 10] Most of these documents have been written about overhead negotiations, management of Government property in the closeout process, terminations for convenience, and canceling funds. These letters are discussed in detail in Chapter IV.

D. CHAPTER SUMMARY

This chapter introduced contract closeout in DoD. Definitions of key contract closeout terms were discussed. Past and current legislation, regulations and policies governing the closeout process were described. The next chapter discusses the contract closeout process in detail. The participants involved in the process are introduced, followed by presentation of the FAR-prescribed contract closeout time limits. The five major functions required to complete the contract closeout process are analyzed, including a detailed discussion of each of the 15 steps required by the FAR. The chapter concludes with a discussion of alternative contract closeout methods.

III. THE CONTRACT CLOSEOUT PROCESS

A. INTRODUCTION

This chapter examines the contract closeout process. It begins with a review of the people involved in the closeout process, followed by discussion of the time limitations for completing all types of contracts. Next, the five major actions required to close out contracts are analyzed, including a detailed review of the 15 steps required by the FAR prior to contract closeout. Finally, alternative closeout procedures allowed by the FAR are introduced.

B. PARTICIPANTS IN THE CONTRACT CLOSEOUT PROCESS

There are several parties involved in the contract closeout process. This section describes the roles and functions of each of the participants in contract closeout.

1. Procuring Contracting Officer

Once the PCO has awarded a contract, that activity "...shall not retain any contract for administration that requires performance of any contract administration function at or near contractor facilities," except under certain circumstances [Ref. 34: Sec. 242.203]. Although this relieves the PCO of the normal duties associated with contract administration, he or she still retains responsibility for that contract through closeout. The PCO, while not required to perform most contract closeout actions, is still involved in the contract closeout process, and is responsible for at least four of the 15 closeout steps required by the FAR [Ref. 58: p. 60].

2. Administrative Contracting Officer

The ACO is responsible for initiating and completing the closeout process and providing disposition for the closed contract files. Critical duties include coordination between all of the Government activities required for different closeout actions, contractor interface, and negotiation of unsettled and disallowed costs. The ACO is also responsible for the storage and disposal of the closed contract files. [Ref. 37]

The Divisional Administrative Contracting Officer (DACO), a supervisory ACO, is normally the lead Government negotiator for interim or disallowed contract costs and final overhead rates, when those items are required prior to contract closeout. In some organizations, an ACO's only duty is to perform contract closeouts, either individually or as a team leader, while in other organizations, the ACO performs closeout as one of many other duties and responsibilities. [Ref. 57]

3. Plant Clearance Officer

The Plant Clearance Officer (PLCO) is a warranted Industrial Plant Clearance Officer, certified in Government property disposition [Ref. 37]. Before a contract can be closed, the PLCO must ensure all Government property located at the contractor facilities is accounted for and receives disposition. Proper disposition of Government property is a continuous process. Successful management of Government property throughout contract performance enables the PLCO to complete the clearance process for contract closeout quickly and efficiently. [Ref. 38]

The PLCO's contract closeout responsibilities become much more difficult when Government property cannot be accounted for or must be reutilized for another contract

in a different location. The difficulties may result from the size, specialization or shipping requirements of the property, or lack of another utilization source. Any contract containing Government property worth more than $100,000 must be cleared by the PLCO before the contract can close. [Ref. 37]

4. Defense Contract Audit Agency

DCAA plays an important role in the contract closeout process when a CR contract is used. The auditor assigned to the contract must review all financial data to ensure that all costs claimed by the contractor are allowable and allocable to the contract. Additionally, the DCAA auditor advises the ACO or PCO on settlement of interim or disallowed costs, ensures all price revisions are completed, and recommends final overhead rates for prior-year indirect costs. The DCAA audit can take so long that it is often the sole reason contracts close out late [Ref. 49: p. 47]. In many cases, the DCAA audit is late due to failure of the contractor to submit claims in a timely manner [Ref. 37].

5. Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) is involved in only a few steps in the contract closeout process, although those steps are critical to successful completion of the contract. Its responsibilities include excess funds review and final payment to the contractor. If DFAS has a backlog of work, or makes any mistakes on financial input, it often causes delayed contract closeout, and may leave the contractor disgruntled. If the final payment is more than 30 days late, the Government must pay the contractor interest on the amount due. [Ref. 37]

6. The Staff Judge Advocate

On the majority of contract closeouts, the Staff Judge Advocate (SJA) has little involvement. They are available to provide advice to the ACO for all legal matters pertaining to contract closeout. When contracts need patent and/or royalty clearance, the SJA must approve those clearances before the contracts can close. Although inaction by the SJA can cause the contract to close late, they usually do not hold up the closeout process. [Ref. 37]

7. The Contractor

The contractor plays a critical role in the closeout process. While it does not have responsibility for many final closeout actions, its input is required for several key steps. The contractor must provide information for settlement of interim or disallowed costs, price revisions, and more importantly, settle all subcontracts pertaining to the prime contract. It must also provide a closing statement to the PCO and submit a final invoice to the Government prior to final payment and contract closeout. The contractor may have incentive to withhold its final invoice if it knows that money will be due back to the Government on settlement. The relationship between the contractor and the ACO often make the difference on timely contract closure. [Ref. 57]

The subcontractor role in the contract closeout process may be as important as that of the prime contractor. Because privity of contract does not allow the Government to manage subcontractors directly, the prime contractor has responsibility for ensuring that its subcontractors complete all tasks required to close their contracts. The prime contract

with the Government cannot be closed until all subcontracts have been closed [Ref. 39: Sec. 4.804-5].

C. ALLOWABLE TIME LIMITS FOR CONTRACT CLOSEOUT

The Government has established time limits for contract closeout. These limits are based on contract type and start with the date the contract is deemed physically complete. Once the ACO determines that all contract items have been delivered by the contractor and accepted by the Government, the contract is moved from an open status to a physically complete status. On the date the contract becomes physically complete, the contract closeout process officially begins, and the time limits prescribed in FAR then apply. [Ref. 39: Sec. 4.804-1] These time limits are listed in Table 1.

Type of Contract	**Time Limit After Physical Completion**
Small Purchases	When contracting officer receives evidence of receipt of property and final payment
Firm-Fixed-Price(excluding small purchases)	6 Months
Contracts Requiring Settlement of Indirect Rates	36 Months
All Other Contracts	20 Months

Table 1. Contract Closeout Time Limits.
Source: Ref. 39: Sec. 4.804-1

D. THE CONTRACT CLOSEOUT PROCESS

There is wide variability in the requirements to close Government contracts. For low-cost, FFP contracts, very few actions are required for closeout. For complex, CR contracts, especially those involving multiple subcontractors, contract closeout can be a

complicated process involving many participants and taking years to complete. The discussion of the closeout process that follows, while not necessarily all-encompassing, is designed to provide the framework for a complex closeout rather than a simple one. The contract closeout process is shown in Figure 1.

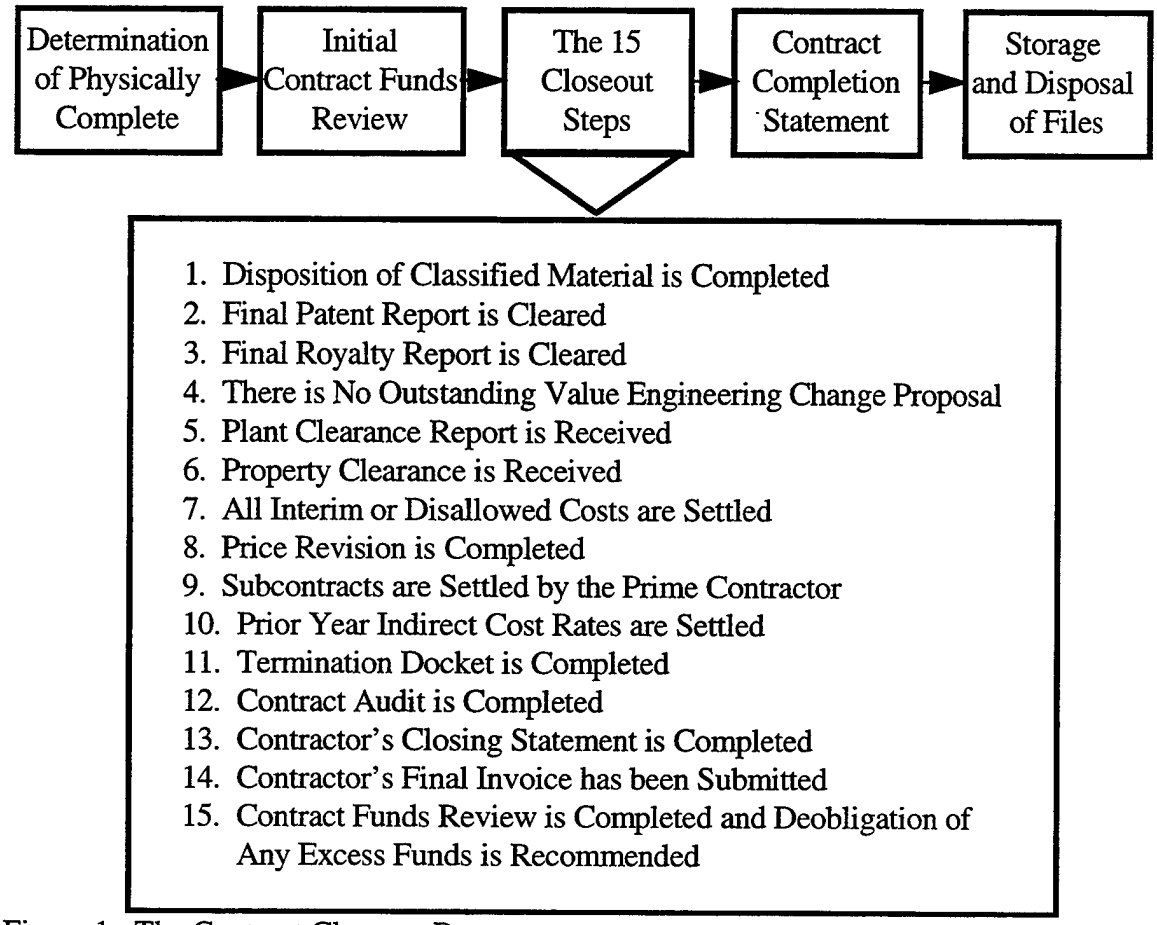

Figure 1. The Contract Closeout Process.
Source: Ref. 38: Sec. 4.804 and Developed by Researcher

1. Determination of Physically Complete

The initial action in the contract closeout process is the determination that the contract is physically complete. At this point, all Contract Line Item Numbers (CLINs) and any other deliverable products or services must be delivered to and accepted by the

Government. Next, the ACO reviews the contract to ensure that it does not contain any options or clauses which could keep it open. If the contract does not contain any of these options or clauses, the ACO may then determine the contract is physically complete. [Ref. 39: Sec. 4.804-4] On the date this occurs, the contract is placed in the physically complete category, and the FAR time limits for contract closeout commence.

2. Initial Contract Funds Review

The second action in the closeout process is to conduct an initial contract funds review. The ACO is normally responsible for this action. If excess funds are identified, the ACO will report this information to the PCO for disposition. The ACO then completes DD Form 1594, "Notice of Physical Completion," as required by the DFARS [Ref. 34: Sec. 204.804-2]. This signals to the PCO that the contract has been physically completed and the initial funds review conducted. [Ref. 52: p. 15]

3. The 15 Steps in the Closeout Process

The third action in the closeout process is completion of the 15 steps enumerated in the FAR [Ref. 39: Sec. 4.804-5]. Each of the 15 steps is not always required in order to close contracts. For FFP contracts, several of the actions are not required for closeout, such as settlement of interim or disallowed costs and settlement of prior year indirect costs. On complex CR contracts, especially those involving research and development, most or all of the 15 steps for contract closeout are required. Each of the 15 steps is described next.

a. Complete Disposition of Classified Material

This step requires the contracting officer to dispose of classified materials in accordance with procedures outlined by the Defense Industrial Security Agency (DISA). Contractors may retain, destroy, or return the material to the Government. The disposition of classified material is normally performed only by the ACO. It has been assessed as an easy to moderately difficult task to perform, usually based on the material's classification level. Most ACOs have assessed disposition as very difficult only when the classified material is "Top Secret," and reported the task as easy to moderately difficult when the classification is less restrictive. [Ref. 58: p. 37]

The ACO may withhold final payment until the contractor provides disposition on the classified material. If disposition of classified material is required, the contract cannot be closed without its successful completion. [Ref. 37]

b. Clear the Final Patent Report

This step requires the contractor to submit a final patent report within three months after physical completion of the contract, identifying all inventions resulting in approval of or application for patents. The ACO must receive and process the report in order to complete the action. [Ref. 58: p. 39]

Final patent clearance requires action from the contractor, the ACO and the SJA from the Service owning the contract. For FFP and other fixed-price production contracts, this step is rarely required. However, this action is required for up to 75 percent of CR contracts for research and development. [Ref. 58: p. 39]

Although usually required on CR contracts, this is normally a fairly easy task for the ACO to perform. If the ACO provides formal instructions to the contractor at the post-award orientation conference, planning for patent actions may begin early in the contract administration process, when they are easier to perform. [Ref. 58: p. 39]

Contractors have two major incentives to complete their patent reports. First, the contracting officer may withhold some of the contract value and deny final payment until the report is submitted [Ref. 58: p. 39]. Second, the contractor wants to protect its proprietary data by ensuring the Government knows about all of its patents. Although the prime contractor usually has enough incentive to provide required patent data to the contracting office, the ACO may face problems when subcontractors have patent clauses in their contracts with the prime contractor and they do not submit final patent reports in a timely manner. [Ref. 37]

c. Clear the Final Royalty Report

This step requires the contractor to furnish a statement of royalties paid or required for payment in connection with the performance of the prime contract and subcontracts [Ref. 58: p. 40]. The contracting officer must process this report prior to closing the contract file.

Final royalty report clearance requires action from both the contractor and the ACO. It is rarely required for FFP and other fixed-price contracts, and is required less often than patent reports on CR contracts. Contracting officers have assessed this action as moderately easy to perform. [Ref. 58: p. 40]. Like the Final Patent Report, the ability

of the Government to withhold final payment normally provides the contractor with enough incentive to provide the required information in a timely manner. The level of difficulty completing this step usually resides in the number of subcontractors who have royalty clauses in their contracts. [Ref. 37]

In very rare cases, the ACO may notice an alleged infringement has taken place when reviewing royalty reports. If this occurs, the ACO must immediately notify the contractor, the PCO, and the SJA of the infringement. The ACO is responsible for investigating alleged infringements or claims, and reports results of the investigation to the SJA counsel. [Ref. 37]

d. Close out any Outstanding Value Engineering Change Proposals

Value Engineering Change Proposals (VECPs) are proposals from the contractor to improve a product or process which will eventually give the Government better value through lower cost or better quality. When the Government accepts VECPs, the contractor and the Government share the savings.

When the contractor submits VECPs, it sends them to the PCO. The PCO must then notify the contractor on the status of Government acceptance within 45 calendar days. For contract closeout, the ACO must coordinate with both the PCO and the contractor to ensure there are no open VECPs. Contracts with pending VECP actions cannot be closed out, nor can final payment be made. [Ref. 58: p. 41]

e. Receive the Plant Clearance Report

DCMC works with defense contractors to identify, redistribute, and dispose of excess property in accordance with the FAR and DFARS, and contract clauses or requirements [Ref. 10]. The One Book also gives instructions for plant clearance, along with a process flowchart which assists the PLCO in completing all required actions.

There are two different types of plant clearance, Traditional and Modified. Traditional plant clearance is performed through the procedures outlined in the FAR, DFARS and the One Book. For Traditional Plant Clearance, the PLCO opens the cases and performs all the required work. In Modified Plant Clearance, the contractor opens the cases and provides a "self-oversight" management of the property. In this situation, the PLCO only provides auditing management to the open cases. [Ref. 38]

As discussed in Section B of this chapter, plant clearance is a continuous process. On large, complex contracts involving substantial amounts of Government property, plant clearance can be an arduous, time-consuming process. Plant clearance can be especially difficult when dealing with hazardous materials if the contractor does not have an approved disposal process [Ref. 38]. The contract cannot close until plant clearance is completed.

f. Receive Property Clearance

Government property used by the contractor during contract performance must also be cleared prior to closeout. Property clearance requires the Property Officer to coordinate with the ACO and the contractor's property manager. This action is

performed on a majority of Government contracts, and almost always on CR contracts. [Ref. 58: p. 43]

There are five categories of property used on Government contracts: (1) material, (2) facilities, (3) agency-peculiar or unique property, (4) special tooling, and (5) special test equipment [Ref. 3]. Property owned by the Government in all five categories must be cleared prior to contract closure. When the Property Officer has cleared all Government property for the contract, a DD Form 1662 will be forwarded to the ACO and contract closeout may continue. If Government property is not used on a contract, the Property Officer must furnish a memorandum to the ACO stating that property clearance is not required for that contract. [Ref. 3]

g. Settle all Interim or Disallowed Costs

This action is usually not required for FFP contracts, and is normally performed for CR contracts. When questioned about this step, ACOs reported that settlement of interim costs is only required on about 25 percent of CR contracts [Ref. 58: p. 44].

Settlement of interim or disallowed costs has been assessed as a fairly difficult task. The DCAA report is not always timely or accurate, and difficulties between the ACO and the contractor during negotiations usually add to the difficulty. If the contractor and the Government have a wide disparity between the costs they believe are allowable or allocable, negotiations may continue long past the date of physical completion. [Ref. 58: p. 44]

h. Complete the Price Revision

Price revision is one of the most difficult steps in closeout, requiring coordination between the ACO, PCO, DCAA and the contractor. However, it is seldom required, even on CR contracts. Price revision is only required when the original contract price needs to be changed due to economic price adjustment or for incentive-structured contracts [Ref. 58: p. 46]. When change orders have been issued during performance of the contract, price revision is not required [Ref. 37].

Price revision has been assessed as difficult due to the amount of audit, analysis and negotiation required. For complex contracts with incentive arrangements or economic price adjustments, the Government and contractor often disagree about the amount allowed by the Government. Negotiations for final settlement could take months, or even years if the disagreements are formally disputed. [Ref. 37] When price revision is required, the contract cannot close until the step is completed.

i. The Prime Contractor Settles All Subcontracts.

This step is required only when the contractor has subcontracted work on a contract. Generally, large CR contracts are more likely to contain subcontracts than FFP contracts [Ref. 58: p. 48].

When this closeout step is required, its difficulty is based on the prime contractor's ability to administer and settle its subcontracts. The prime contractor may encounter difficulties with negotiation of final overhead rates, lost records by the subcontractor, refusal by the subcontractor to submit to audit due to proprietary

information nondisclosure rights, or refusal to submit a final billing. When these situations arise, the prime contractor may request DCMC's intervention for all required subcontract settlement actions. [Ref. 37]

j. Settle Prior Year Indirect Costs

This step has been reported as one of the principal reasons for delay on contract closeout for incentive-based contracts [Ref. 49: p. 47]. Settlement of indirect costs is not required for FFP contracts.

DACOs have reported that delays attributed to late settlement of indirect costs are caused by DCAA audit backlogs, settlement of rates at the corporate or divisional level when the contract is at a lower business unit level, and settlement of subcontractor rates [Ref. 58: p. 49]. When a major defense contractor's policy is to settle all indirect cost rates at the corporate or divisional level, there is little the DACO can do to speed up the closeout process [Ref. 37].

Settling indirect rates often takes years when large contracts involving significant dollar amounts are involved. Until final rates are established, the Government pays the contractor according to interim billing rates established by the DACO. Because of the unilateral nature of this decision, the rates must be settled by negotiation and agreement between the Government and the contractor, a process that often takes years to complete. [Ref. 58: p. 49]

To reduce the backlog of DCAA audits, the Government instituted the Quick Closeout Procedures in the FAR, allowing the ACO to settle indirect costs with the

contractor under certain conditions [Ref. 39: Sec. 42.708]. Quick Closeout Procedures are discussed in Section E of this chapter.

k. Complete the Terminations Docket

This action, required only when the PCO has issued termination actions either for convenience or default, has been assessed as moderately easy to perform. This step has been reported as difficult mainly for termination of FFP contracts. Under CR contracts, the Government has monitored contractor performance and costs throughout the contract. On FFP contracts, the contractor has had no Government involvement on the allocability and allowability of its costs. Since FFP contracts are essentially converted to cost-type contracts under termination actions, contract costs must be reviewed for allocability and allowability before final payment can be made. [Ref. 58: p. 51]

l. Complete the Contract Audit

This step is almost never performed on FFP contracts, but almost always completed on cost-type contracts. The rate at which the Government exercises its rights depends on whether or not the audit is required before final payment can be made. [Ref. 58: p. 52]

Contract audit completion involves several participants and may take years to complete, depending on the complexity of the contract. Close coordination between the PCO, ACO, DCAA and the contractor are required to successfully complete this step. DCAA's audit backlog contributes to late contract closeouts, although the Department of Defense Inspector General (DoDIG) found that the backlog was not always the main

problem [Ref. 41: p. 7]. Other factors contributing to late audits are late submission of contractor information, inaccurate information, and late audits of subcontractors [Ref. 37].

m. Complete the Contractor's Closing Statement

The contractor is always required to furnish a Contractor's Closing Statement [Ref. 37]. When polled about the difficulty of completing this action, most ACOs reported that it was one of the easiest steps in the closeout process, only requiring coordination between the contractors and the ACOs themselves [Ref. 58: p. 54]. Any potential difficulty with this step usually stems from either inaction or submission of an inaccurate statement by the contractor [Ref. 58: p. 54].

n. Submit the Contractor's Closing Invoice

This action is required on all contracts, regardless of size or type of contract, unless the contract does not require submission of a final invoice for payment. The contractor is required to submit an invoice for final payment immediately after all deliverables have been accepted by the Government, but not later than one year from the completion of the contracted work. [Ref. 58: p. 55]

ACOs have reported problems completing this step. Difficulties occur due to inadequate time to prepare and submit final invoices, inaccuracy of the final invoice, or the contractor's knowledge that it owes the Government money once it submits the invoice [Ref. 58: p. 56].

o. Complete Contract Funds Review and Recommend Deobligation of Excess Funds

This step must be performed in every contract closeout. Contracting officers have described the action as fairly easy for FFP contracts but usually difficult on most CR contracts. This is primarily due to the accuracy of the obligation and expenditure data on hand at the procurement location, the geographical separation between contract administration offices and DFAS offices, and the degree to which accounts must be reconciled. [Ref. 58: p. 57]

The Government may face significant impacts if this step is not completed or is inaccurate. If excess funds are not identified and deobligated before the statutory time limits, current funds must be used to pay for settlement costs of old contracts, in effect causing a loss of funding on new procurements.

4. The Contract Completion Statement

After the steps required in FAR 4.804-5 have been completed, the ACO then completes DD Form 1594, "Contract Completion Statement." This form verifies completion of all required contract closeout actions. The ACO also establishes a "closing date" for the contract and places this date on the form. After completing the DD Form 1594, the ACO forwards the original to the PCO and retains a copy as authority to close the contract file. [Ref. 52: p. 17]

5. Storage and Disposal of Files

The last major action in the closeout process is the storage and disposal of contract files. While the Government has delegated authority to its agencies on the exact

procedures for handling, storing, and disposing of closed contract files, the FAR does specify individual retention periods for various contract documents. [Ref. 52: p. 17] The retention period required for each document varies, from the end of contract completion to six years and three months after final payment is made [Ref. 39: Sec. 4.805].

The level of difficulty and management effort required for closeout varies with each contract. For low-value, FFP contracts, most of the difficult, time-consuming closeout steps are not normally required, and those contracts may close quickly. For high-value, cost-type contracts, especially those supporting acquisition of major systems, contract closeout is a complex process, often taking years to complete. In many of these cases, the ACO has little control over difficult closeout actions, since the contract size, type, and subcontractor selection has already been made at contract award. Settlement of interim or disallowed costs, plant clearance and Government property disposition, contract audit, and settlement of final indirect cost rates are some of the critical steps performed on major systems contracts.

E. ALTERNATIVE CLOSEOUT METHODS

Under certain circumstances, the ACO may use alternative closeout methods to alleviate late closeouts due to backlogs at DCAA. Under the Quick Closeout Procedures described in the FAR, the ACO may negotiate the settlement of indirect costs for that contract in advance of final rate determination, under the following conditions:

- The contract is physically complete.
- The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant. Costs are determined to be relatively insignificant when:

- The unsettled indirect cost to be allocated to any one contract does not exceed $1,000,000; and

- The cumulative unsettled indirect costs to be allocated to one or more contracts in a single fiscal year do not exceed 15 percent of the estimated, total unsettled indirect costs allocable to cost-type contracts for that fiscal year.

- Agreement can be reached on a reasonable estimate of allocable dollars. [Ref. 39: Sec. 42.708]

The $1 million unsettled indirect cost limitation in the Quick Closeout Procedures does not allow their use on most large CR contracts. Since CR contract prices typically include one-third or more overhead costs, many contracts valued at $3 million or greater cannot use the Quick Closeout Procedure. Large cost centers such as DCMC LM cannot use this procedure on a majority of their contracts. [Ref. 37]

F. SUMMARY

This chapter discussed the participants involved in the contract closeout process. The time limits prescribed by the FAR were introduced, followed by examination of the actions required to properly close out contracts. Discussion of each step prescribed by FAR 4.804-5 was followed by a description of the Quick Closeout Procedures. The ACO, DCAA and contractor were identified as key participants in the contract closeout process. The next chapter examines management of the contract closeout process at DCMC.

IV. MANAGEMENT OF CONTRACT CLOSEOUT WITHIN THE DEFENSE CONTRACT MANAGEMENT COMMAND

A. INTRODUCTION

DCMC is the primary contract administration organization in DoD. DCMC allows PCOs to concentrate on procuring the goods and services that DoD needs while specializing in administering those contracts once awarded. DCMC provides support for almost 70 contract administration functions, and 11 additional functions if requested [Ref. 8].

This chapter describes the DCMC organization; its mission and roles; and how it uses policy, tasking, and information memorandums to shape its management of the contract closeout process. Factors causing delayed closeout throughout DCMC are analyzed, followed by examination of DCMC's contract closeout metrics. Finally, recent contract closeout initiatives being implemented by the DCMC Headquarters are studied.

B. THE HEADQUARTERS ORGANIZATION

In 1990, several independent Service organizations were consolidated to form the current DCMC organization. The organizations placed under the DCMC Command were Defense Contract Management Area Operations (DCMAOs) and Defense Plant Representatives Offices (DPROs). The DCMAOs administer contracts over a geographic region, managing hundreds of defense contractors and thousands of contracts. The DPROs administer contracts with large, individual contractors such as Boeing and Lockheed Martin. They typically administer fewer but higher-value contracts than

DCMAO offices. The two types of organizations comprise what DCMC refers to as Contract Administration Offices (CAOs) or "field offices." DCMC includes approximately 80 field offices, and administers about 360,000 contracts valued at more than $900 billion. [Ref. 8] The current organizational structure of DCMC within DoD is shown in Figure 2.

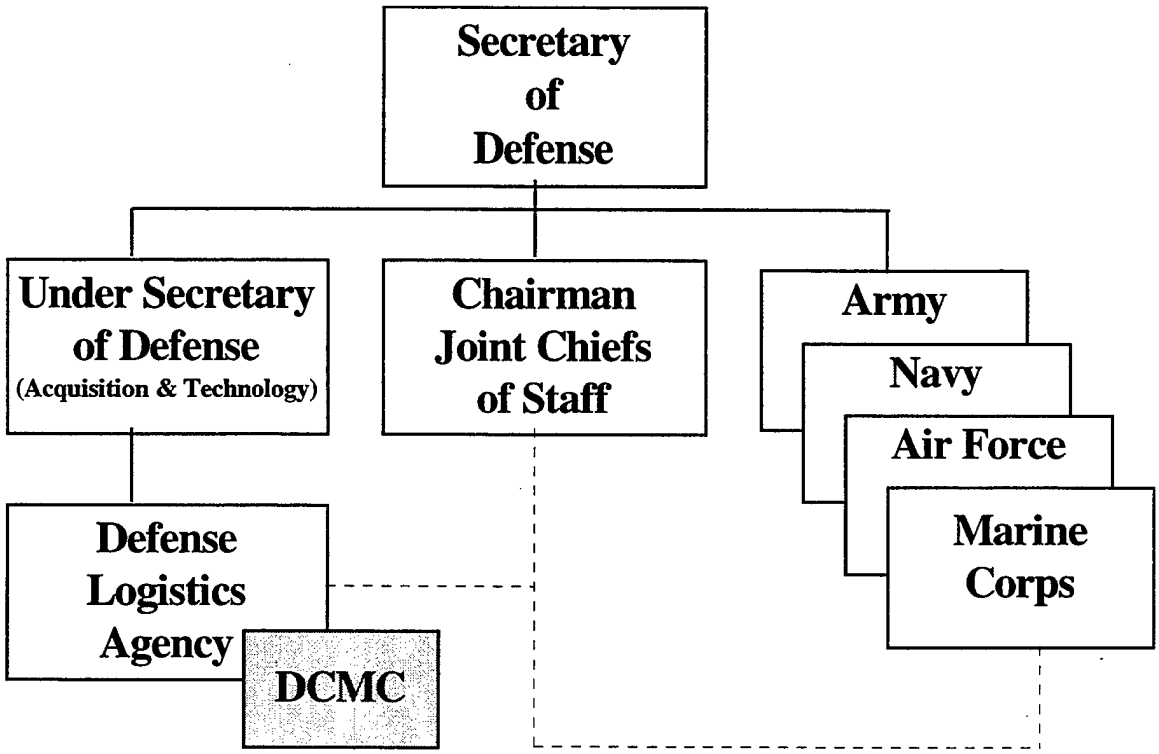

Figure 2. DCMC Organization under the Department of Defense.
Source: Ref. 8

DCMC is a large organization, with almost 14,500 employees at the end of 1997. However, it has lost more than 40 percent of its workforce since the 1990 consolidation. The DCMC employee base consists of a mix of contracting specialists and technical specialists. The largest portion of the workforce, Quality Assurance Specialists, comprise

approximately 29 percent of DCMC's organization, followed by Contract Administrators, which are about 16 percent of the organization's workforce. [Ref. 8]

DCMC is organized into three major Districts: East, West and International. DCMC LM is organized under District West. The DCMC structure is shown in Figure 3.

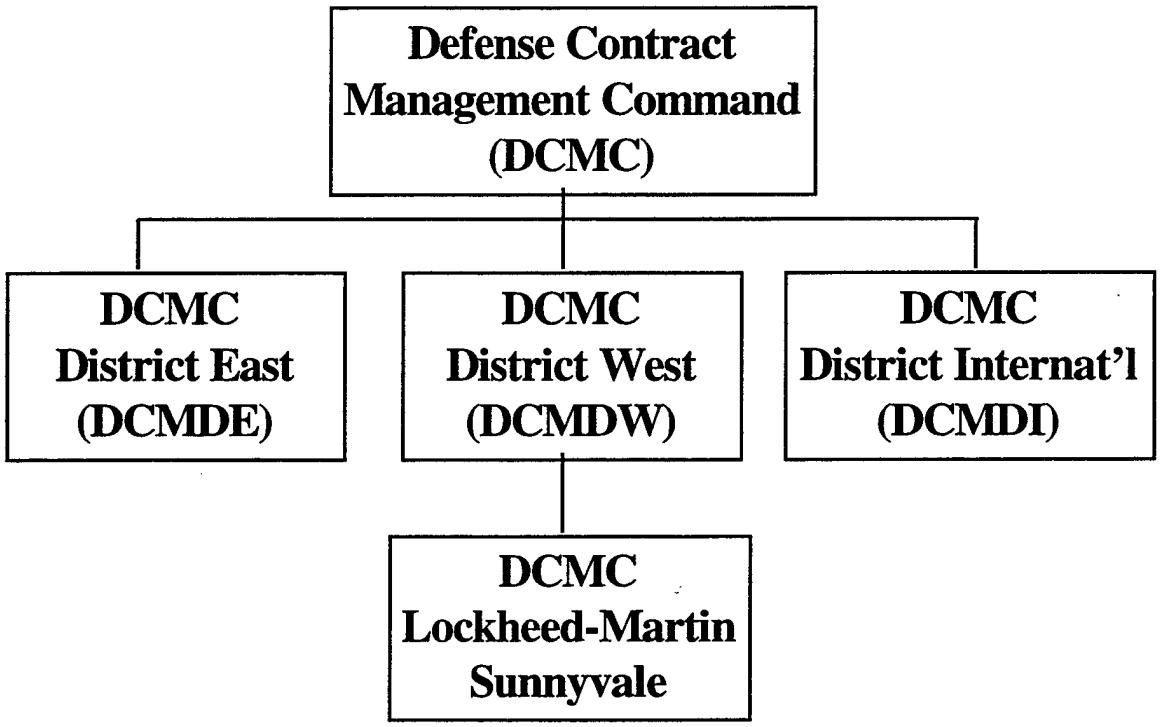

Figure 3. DCMC Organization.
Source: Ref. 14

C. MISSION AND ROLES

DCMC's mission is to function as the primary contract administrator for DoD. Within this mission, DCMC has three strategic goals:

(1) Deliver great customer service;
(2) Lead the way to efficient business processes; and
(3) Enable DCMC people to excel. [Ref. 10]

DCMC Headquarters uses Integrated Process Teams (IPTs) to organize its contract administration management. These 15 teams manage each of its major functions and processes, including a team for "Property Management, Contract Closeout, and Terminations" [Ref. 16]. The Closeout Team structure includes a mix of Government Service civilians and military officers.

The Closeout Team has two primary functions: (1) to provide an organizational policy making and reporting body; and (2) to provide assistance to ACOs, TCOs, and property managers throughout DCMC. The Closeout Team has overall responsibility within DCMC for more than 32 functions. [Ref. 15] Closeout Team responsibilities include development of policy, tasking, and information memorandums related to all facets of the contract closeout process. These memorandums are discussed next.

D. CONTRACT CLOSEOUT POLICIES, INFORMATION AND TASKINGS

DCMC uses policy letters, information letters and taskings to communicate the latest changes and guidance in contract administration to its field offices. These documents are grouped by category, including several categories relating to contract closeout. This section describes how DCMC's policies, memorandums and taskings affect three critical contract closeout areas: overhead negotiations, Government property, and canceling funds.

1. Overhead Negotiations

As discussed in Chapter III, expired funds cancel five years after their last year of obligation. Timely completion of overhead negotiations is one of the critical steps in contract closeout and deobligation of canceling funds. Since overhead costs typically

account for about 53 percent of the overall value of contract work in progress [Ref. 17], late settlement of overhead negotiations can severely impact the contract closeout process.

The DoD goal for completion of all overhead negotiations is 24 months after the year in which overhead costs were incurred. This goal allows contracting officers three additional years to complete contract closeout before the funds cancel. The current DCMC workload of 2,500 unsettled overhead years includes more than 1,330 years beyond that goal. [Ref. 17]

One of the primary causes of open overhead backlogs is the late submission of overhead proposals by contractors [Ref. 12]. In Tasking Memorandum Number 98-161, DCMC requires each CAO to establish a joint action plan to manage overhead proposals. The Districts are each given a spreadsheet to track overhead negotiations, and CAO Operations Chiefs are instructed to meet with their DCAA counterparts to develop a joint action plan for obtaining overdue final overhead proposals. [Ref. 33]

Successful completion of overhead negotiations within the DoD 24-month goal would allow DCMC to improve its contract closeout process significantly. Since late settlement of final overhead rates is one of the primary reasons for delayed closeout, settling all indirect cost rates within 24 months would cause the number of late closeouts to drop significantly.

One of the critical steps in the settlement of overhead negotiations is receipt of the contractor's indirect cost proposal. Tasking Memorandum 98-161 does not require contractor inclusion in its action plan to reduce overhead negotiations time. Without a

teaming arrangement that includes involvement from the contractor, DCMC field offices may find it difficult to receive overhead proposals in a timely manner.

2. Government Property

In Management Reform Memorandum (MRM) #5, the Under Secretary of Defense for Acquisition and Technology instructed DCMC, along with the Military Services and other DoD agencies, to eliminate all property valued at less than the cost of ownership by January 1, 2000. To meet this aggressive goal, DCMC has initiated several information and tasking memorandums.

One of those documents, DCMC Memorandum Number 98-004, instructed field offices to develop an implementation plan to complete disposition of all property affected by MRM #5. The memorandum directed the field offices to focus disposition only on prime contracts containing more than $3 million in DoD property. This threshold reduces the management effort to 1,297 contracts, or 0.4 percent of all current contracts administered, yet accounts for more than 90 percent of the dollar value of property owned by the Government. [Ref. 28]

In the tasking memorandum, the Commander required prime contractors' property managers to identify excess or underutilized Government property, prepare inventory schedules, and submit the inventory schedules to their PLCO counterparts. After the excess or underutilized property is identified, a systematic process of marking and disposing of the property should be followed. [Ref. 28]

The benefits from implementing Tasking Memorandum 98-004 are two-fold. First, forcing Property Officers to work more closely with their contractor counterparts

throughout contract performance identifies many property issues which would normally not arise until contract closeout. Many of these issues are likely to be solved before the contract even becomes physically complete. Second, the Government can reduce its scope of property management while focusing its efforts on 90 percent of the value of its assets.

3. Canceling Funds

DCMC has instituted several policies and initiatives to manage canceling funds more closely. DCMC has used two main policy letters to guide its organizations in their efforts to capture canceling funds. The first letter, written in early 1997, set a goal of 100 percent deobligation of canceling funds by the end of fiscal year 1997 [Ref. 26].

This goal proved to be unrealistic. DCMC discovered that some of the canceling funds were either out of its control or did not require deobligation, such as dollars awaiting reconciliation, PCO requests not to deobligate funds, or funds from contracts tied up in litigation. DCMC found that it only controlled the actions of about 85 percent of canceling funds. In April 1998, the policy was amended to set a performance goal of recovering at least 85 percent of canceling funds each year. [Ref. 32]

In fiscal year 1997, DCMC managed to keep only 64 percent of its at-risk funds from canceling [Ref. 29]. Because it had not come close to meeting its goal, DCMC published another memorandum requiring each CAO to submit a Canceling Funds Monthly Report to DCMC headquarters. Although filling out and submitting the Canceling Funds Monthly Report creates more work for the ACO, it allows quick

identification of canceling funds at each location, which may assist DCMC in coming closer to achieving its 85 percent goal for fiscal year 1998. [Ref. 29]

E. MANAGEMENT OF THE CONTRACT CLOSEOUT PROCESS

DCMC promulgates DLAD 5000.4, the One Book, to guide ACOs in all facets of their administrative contracting duties, including contract closeout. With the exception of Plant Clearance and Property Management, all DCMC contract closeout processes are found in Section 4.8 of the One Book. Each of the major contract closeout functions DCMC manages is written into a different section. The four sections in the One Book include Terminations for Convenience, Contract Closeout, Patents and Royalties and Final Overhead Rates. [Ref. 10]

The purpose of the One Book is to provide a repository of knowledge, information and instructions for CAOs. The One Book contains key aspects of regulations that contracting officers must follow, provides a step-by-step instruction to perform each major contract administration function, and presents these steps in process flowcharts aimed at assisting managers in their decision-making process. [Ref. 10]

DCMC Headquarters uses the One Book to supplement the laws, regulations, and policies governing the contract closeout process. Each section not only provides instructions for contracting officers, but points to applicable regulations for any directives not included in its chapters. CAOs are expected to use the One Book in performance of their day-to-day management of the contract closeout process.

F. ANALYSIS OF LATE CONTRACT CLOSEOUT FACTORS

Past research has found many causes for late contract closeout. Some of these causes include low priority on the part of both the Government and the contractor, inaction by the contractor, inaction by DCAA, lack of internal controls in the DCMC organization, and inaction by the ACO [Ref. 58: pp. 24-27]. Additional factors include funds reconciliation difficulties, inability to close resulting from contracts in litigation, and lack of other resources required to close the contract in a timely manner [Ref. 49: p. 47]. This section presents data collected from a current DCMC report on its overage contracts, and analyzes the results of the information. All data are reported for the second quarter of fiscal year 1998 through the end of February 1998.

As of February 1998, there were a total of 16,999 overage contracts out of about 110,000 actively administered contracts, accounting for a 15.6 percent overage rate. DCMC has maintained its overage rate between 15 and 17 percent for more than a year [Ref. 12]. The two main process drivers for overage contracts are late contractor final invoices and open overhead negotiations. Traditionally, open overhead negotiations are the primary factor causing late contract closeout [Ref. 17]. However, late final invoices now account for the greatest single cause of overage contracts [Ref. 12]. Of all overage contracts, 31.3 percent are due to late contractor final invoices.

There are several reasons for the significant number of late final invoices. First, DCMC's close management attention to open overhead negotiations has enabled more overhead negotiations to be settled within the DoD 24-month goal. With management

attention focused on overhead rate negotiations, however, less attention has been paid to submission of final invoices, and the problem has been allowed to grow significantly.

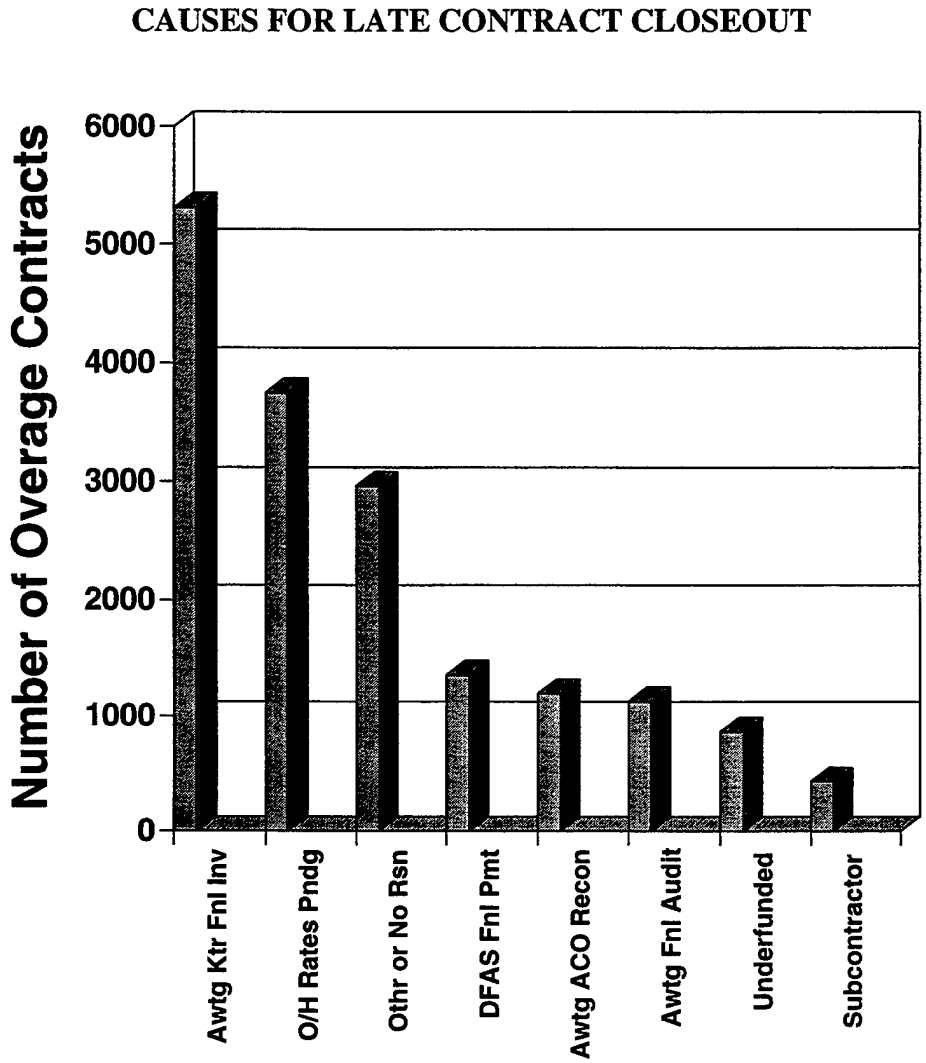

Figure 4. Current Process Drivers for Overage Contracts.
Source: Ref. 12

Second, subcontractor issues often prevent prime contractors from submitting final invoices within allowable time limits. Before prime contractors can submit final invoices, all subcontracts must be closed and final invoices submitted and paid. Issues on large subcontracts such as flowdown of corporate overheads, when rates are not settled

between the prime contractor and the Government, property issues, and inaccurate or incomplete subcontractor records contribute to late closure of subcontracts. Subcontractor issues alone, however, have only been reported to account for 2.5 percent of overage contract causes throughout DCMC [Ref. 12].

Finally, there are no penalties for contractors who submit late final invoices. The FAR requires contractors to submit final invoices within six months of the date of physical completion for cost-type contracts. However, it does not provide penalties for contractors who submit invoices after the six months has elapsed. Without penalties in place, contractors often have an incentive to submit final invoices as late as possible. If they have been overpaid progress payments on FFP contracts or reimbursed for many costs they know will be unallowable on cost-type contracts, they may owe money back to the Government upon final billing. They could also be receiving interim rates that they know will be higher than the final settled rates. In either situation, it is financially prudent for contractors to keep as much Government money interest-free for as long as possible, as long as there is no penalty for doing so.

In the commercial industry, there are often severe penalties for delaying a buyer's operations. Toyota's company policy is to charge suppliers $10,000 for every minute they cause the production line to stop. This policy has provided a deterrent so strong that Toyota has not yet imposed this penalty on any of its suppliers. [Ref. 43] If the Government were to adopt a similar "industry best practice" with its prime contractors, the deterrent effect to contractors would significantly reduce overage contracts due to late final invoices.

The impact of late final invoices on contract closeout is significant. Performance of the most time-consuming and critical closeout steps, including settlement of interim or disallowed costs, final overhead negotiations and final payment cannot be completed without the contractor's final invoice. The problem is exacerbated when late invoices are inaccurate or incomplete.

Currently, the second greatest cause for overage contracts is pending overhead rates. The 3,745 late contracts attributed to open overheads account for 22 percent of all overage contracts throughout DCMC [Ref. 12]. For a variety of reasons, open overhead negotiations have traditionally been reported as the number one reason for late contract closeouts.

DCAA backlogs often prevent timely performance of contract audits. While the Quick Closeout Procedures have been developed to reduce the DCAA backlog, their restrictions limit their use to less than half of all contract closeouts requiring negotiation of overhead rates [Ref. 57]. Without a disinterested party providing analysis and advice on closeout rates, ACOs may tend to have less confidence in their ability to settle a fair overhead rate with the contractor, and may choose not to use Quick Closeout Procedures. To solve this problem, DCMC has developed an initiative called Latest Rates Available / Trend Analysis (LRA/TA). The LRA/TA initiative is discussed in Section H of this chapter.

Contracts in dispute or litigation provide another reason for late overhead negotiations. Often, the Government and the contractor cannot agree on final overhead rates for one or more given years in a contract. A lawsuit or appeal can affect overhead

negotiations not only directly but indirectly as well. Court determinations could cause late contract closeout due to corporate overhead flowdown, even if indirect cost rates can be agreed upon locally. The impacts of this situation are discussed in Chapter V.

A third cause for late overhead negotiations is late submission of the overhead proposal by the contractor. The FAR requires contractors to submit final indirect cost proposals within 180 days of the close of their fiscal year [Ref. 39: Sec. 52.216-7]. Like the final invoice problem, however, the FAR does not penalize contractors who submit late overhead proposals. This is the most common cause for late overhead negotiations at some DCMC locations [Ref. 37].

Approximately 26 percent of the remaining late contract closeouts are attributed to late DFAS final payments, waiting for ACO reconciliation, waiting for final audit, or are underfunded [Ref. 12]. DCMC-wide data suggest that neither subcontractor closeout nor property issues are predominant causes for overage contracts. However, the factors in Chapter V present evidence to the contrary in the case of DCMC LM.

The most common determinants for late contract closeout cannot always be measured individually. Although DCMC requires CAOs to provide a single reason for overage contracts, there are often multiple reasons, as well as interrelation between the various factors which cause many contracts to close late.

For instance, late contractor final invoices may be the single reason reported for late closeout on a contract, but late submission of an invoice may be due to subcontractor or property issues. Open overhead negotiations may be affected by the same factors, or by late submission of final invoices. The interrelation of these factors, especially on large

cost-type contracts with many large subcontracts, often makes it difficult to pinpoint a single cause as the reason for late closeout on a contract.

G. ANALYSIS OF CONTRACT CLOSEOUT METRICS

DCMC has identified ten critical contract closeout metrics, although it reports only three of these on a monthly basis. The ten closeout metrics managed by DCMC are listed in Appendix C. Metrics discussed and analyzed in this section include: (1) Open Overhead Negotiations, which measures the number of open overhead years at the end of the reporting period; (2) Percent Overage, which measures the percentage of contracts that are physically complete but have not closed within the time standards set by the FAR, compared to the total number of administered contracts during the time period; and (3) Funds at Risk of Canceling, which measures the unliquidated obligation dollar amount of Accounting Classification Reference Numbers (ACRNs) with funds due to cancel at the end of the current fiscal year [Ref. 7: pp. 89-90, 94].

1. Contract Closeout Goals in DCMC

For the three metrics it uses to track contract closeout on a monthly basis, DCMC has set performance goals for each of its districts, as well as for the organization overall. The current performance goals are the result of years of analysis and input from the field. Rather than providing an unattainable goal for its metrics, DCMC provides its Districts with a realistic goal that is not only attainable but also allows room for improvement in the organization. The open overhead negotiations, contract closeout, and canceling funds goals set for the 1998 Performance Plan are discussed next.

a. Open Overhead Negotiations

The DCMC goal for Open Overhead Negotiations is to meet the DoD goal by the end of June 1999 [Ref. 11]. That goal, to negotiate all indirect cost rates with prime contractors within 24 months of the end of the fiscal year in which contract funds are used, is likely the most aggressive goal DCMC has set for the contract closeout process. In order to meet the goal, all CAOs must not only complete negotiations on overheads that will turn two years old by June 1999, but must also complete negotiations on all older outstanding overhead negotiations.

b. Contract Closeout

For contract closeout, DCMC has set a goal of 15 percent or fewer overage contracts. This figure is derived by dividing the number of contracts which have been physically completed but not closed within FAR time standards by the total number of contracts in the open contracts section of the DCMC database. [Ref. 15]

In 1997, DCMC set an unattainable goal of zero overage contracts. After hundreds of complaints from field offices, and realization that there would always be a certain number of contracts it had no control over, DCMC revised its goal to the current 15 percent overage metric. [Ref. 57]

c. Canceling Funds

The 1998 Performance Plan goal for canceling funds is to stop 85 percent of expired funds from canceling at the end of fiscal year 1998. Like the Contract Closeout goal, this goal has been revised over time. In 1997, DCMC set an unattainable

goal of saving 100 percent of canceling funds. After information from ACOs in the field, as well as from SJA offices and other organizations, DCMC realized that it only controls about 85 percent of the funds that will cancel at the end of the fiscal year [Ref. 12]. DCMC has now given its CAOs a realistic and achievable goal which still requires them to save all of the expiring funds under their control.

2. Metrics Results and Analysis

Each of the metrics listed above is tracked on a monthly basis by DCMC, and is reported to the Commander in a Monthly Management Review (MMR) Briefing. The data reported in the following sections were compiled from the April 20, 1998 MMR Briefing [Ref. 12].

a. Open Overhead Negotiations

Figure 5 depicts the DCMC-wide results of the Open Overhead Negotiations metric, which has been used since January 1997. The numbers on the vertical axis describe the summation of contract years for all DCMC-administered contracts with unsettled overheads. The Backlog line represents all contract years with unsettled overhead rates which have extended beyond the DoD goal of 24 months. The Workload line represents the addition of current open overhead negotiations with all unsettled overheads in backlog. The dotted lines on the chart show the anticipated goal of competing all overhead negotiations backlogs within 24 months by June 1999.

The backlog has been reduced by more than 500 overhead years since January 1997, a 38 percent decrease. However, DCMC still has a significant overhead

negotiations backlog of more than 800 overhead years. It is unrealistic for DCMC to assume it will achieve its goal of totally eliminating its backlog by 1999. The workload for open contracts has decreased almost 1,000 years, but actually increased slightly in the first three months of 1998.

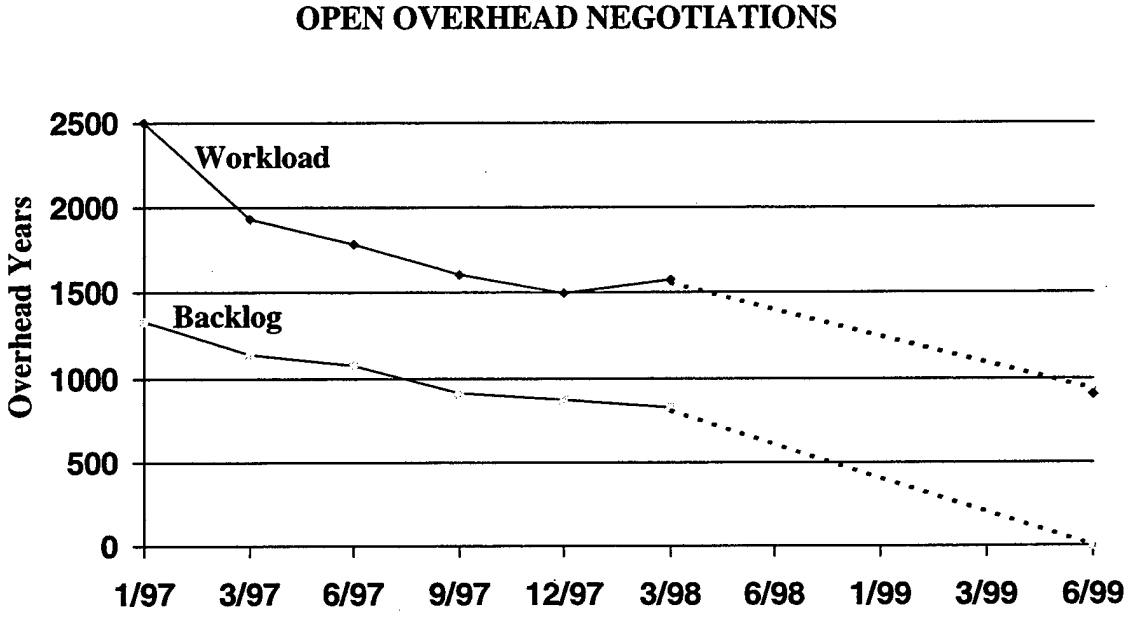

Figure 5. DCMC Overhead Negotiations Workload and Backlog.
Source: Ref. 12

There are several factors which cause DCMC's overhead backlog and workload to remain high. DACOs and contractors cannot always come to agreement on overhead rates for work performed on contracts. On large contracts, moving overhead rates just a few percentage points in one direction or another can result in millions of dollars in contract value. Overhead rates disputes, especially on large contracts, often cannot be settled within DoD's 24-month goal.

Some of the current backlog is still likely to remain open through 1999 and beyond due to resolution of disputes in formal litigation. The large backlog of cases

in the Federal court system, as well as the lengthy appeals process for unfavorable court decisions, can sometimes delay settlement of overhead rates for a decade or more. Even litigation resulting from reasons other than failed negotiations can result in overage contracts due to overhead rates. If a prime contractor is in litigation, the results of the lawsuit could impact overheads on a contract either directly or indirectly due to the flowdown of corporate overhead costs. The use of Alternative Dispute Resolution (ADR) Procedures to resolve unsettled overhead negotiations could alleviate this problem significantly.

Finally, there is no requirement in Tasking Memorandum Number 98-161 for DACOs to team with contractor representatives. Teaming requirements between DACOs and DCAA auditors is leading DCMC in the right direction, but the purpose of the memorandum is defeated by not including the contractor in the teaming process. Ensuring DACOs and DCAA auditors work together to close overhead negotiations more quickly does not guarantee DCMC that the contractor will settle quickly on overhead rates. The DCMC/DCAA teaming requirement is explored further in Section H of this chapter.

b. Percentage of Overage Contracts

For Contract Closeout, DCMC has set a realistic goal which still allows it to reduce many of its overage contracts. Figure 6 charts the progress for fiscal year 1998 for Percent Overage Contracts. The data used from the chart were collected from the beginning of fiscal year 1998 through February 1998. Although DCMC uses several tools to manage

its overage contracts, it has been above its 15 percent overage goal since August 1997 [Ref. 12].

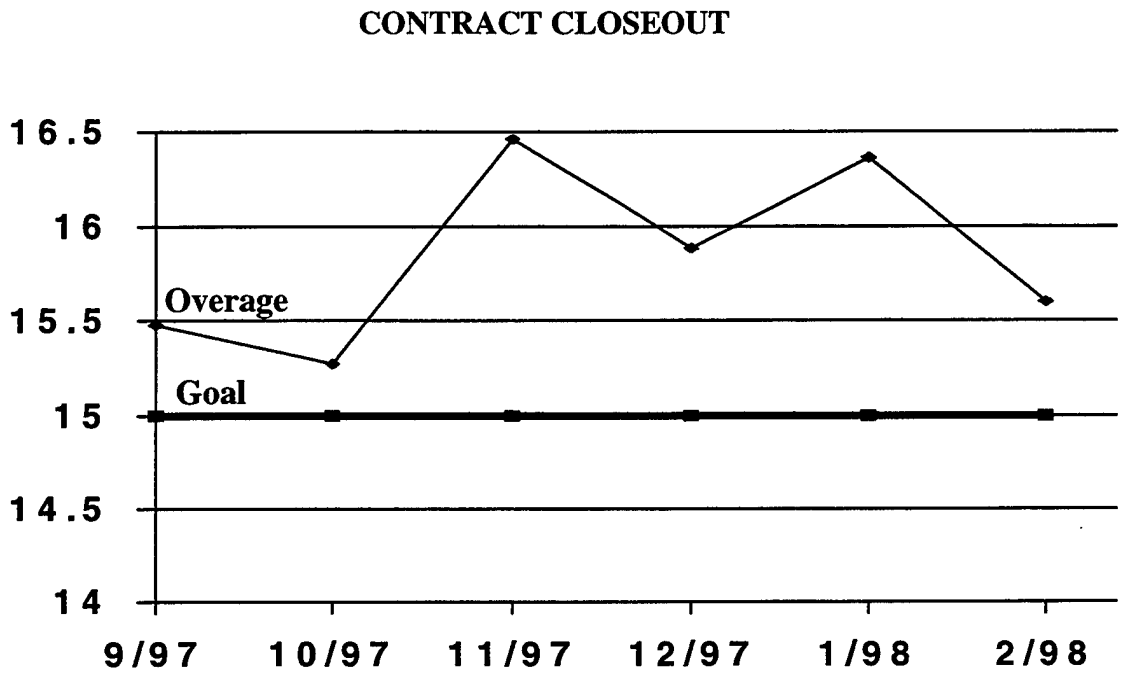

Figure 6. DCMC Overage Contract Status.
Source: Ref. 12

There are several factors that cause DCMC to remain short of its goal. First, some old contracts are extremely difficult to close, and contracts which are already overage may not close for many more years. For example, if subcontractors have not kept good records, have gone out of business or have gone to litigation over disputes, the overage prime contracts cannot be closed out until those subcontracts are settled.

Second, the primary factors for late contract closeout have changed over time. Previously, the number one cause for late closeouts was delay due to overhead negotiations. Recently, that cause has been replaced by late submission of contractor final invoices. While DCMC has focused its management efforts on reducing overage

contracts due to open overhead negotiations, other causes such as late contractor final invoices have emerged which are keeping the overage percentage higher. There are several explanations for late contractor final invoices, as discussed in Section F of this chapter.

Third, while some overage contracts are being closed out, more physically complete contracts continue to move into the overage category. DCMC is aware that it only has direct control over about 85 percent of its contracts in closure, due to PCO actions, litigation, DFAS inaction, DCAA backlogs and other reasons [Ref. 15]. That means it must close out 100 percent of the contracts it has control over just to meet the minimum criteria of the metric. While it is possible that DCMC could achieve this goal with increased resources, its mandate to decrease its payroll by five percent per year until the year 2000, along with other competing priorities, makes the likelihood of receiving those resources low [Ref. 57].

Finally, the measurement procedure of the percent overage metric itself must be questioned. The structure of the metric allows the procedure to be manipulated. By focusing on contracts in the physically complete category alone, DCMC is not managing the closeout process from the time the contracts are actually physically complete.

Every time a contract moves into the physically complete category, it adds to the base of physically complete but not overage contracts. If contracting officers move large numbers of physically complete contracts into that category right before the end of the reporting period, they can reduce their percent of overage contracts without ever

closing a contract. Without charting actual progress, such as actual number of contracts closed, or percent of contracts closed as a percentage of contracts in the physically complete category, DCMC cannot accurately manage its progress in reducing overage contracts.

c. Canceling Funds

Figure 7 charts DCMC's goal and actual metrics for canceling funds in fiscal year 1998. In order to reach its 85 percent recovery goal, DCMC must reduce canceling funds from about $1.9 billion at the outset of fiscal year 1998 to just over $200 million at the end of the fiscal year. DCMC is currently on track to meet its goal for canceling funds.

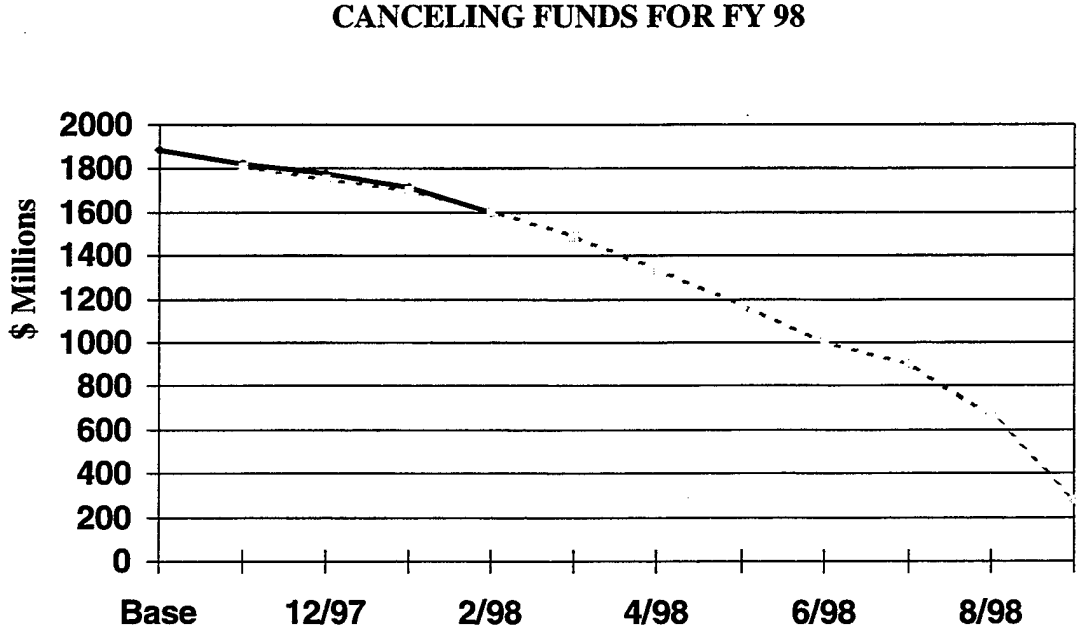

Figure 7. DCMC Canceling Funds and Goal for FY 1998.
Source: Ref. 12

There are several reasons DCMC has been able to capture canceling funds. First, the funds review and deobligation process can be divorced from the rest of the contract closeout process. Whether or not a contract becomes overage, its funds will still cancel five years after their last year of obligation. Once contracts are physically complete, the review and deobligation of funds can and should take place in a timely manner, regardless of how much work remains in the contract closeout process. DCMC has realized that effective management of canceling funds does not require performance of the other contract closeout steps, which in turn has allowed it to manage this function more effectively.

Second, DCMC's closer management of canceling funds appears to be effective. Its Canceling Funds Monthly Report provides easy measurement of the canceling funds process at each CAO and allows it to focus management attention on those organizations falling behind the expenditure goal. Expenditures may be made either through liquidation of obligations to active and physically complete contracts, or through deobligation of canceling funds and liquidation on other contracts.

Third, the large dollar amounts remaining in ULOs in major contracts provide incentive for several of the major players in the acquisition process to become more involved in the review and deobligation of funds. The passage of Public Law 101-510 provided a "use-it-or-lose-it" atmosphere in Government acquisition, which has provoked action not only from DCMC and other contract administration organizations, but also from program offices and contractors, who both share the risk of losing funds on current contracts when the old funds cancel.

Finally, a large portion of the canceling funds are not truly "at risk" of canceling. Depending on the specific year and individual organization, sometimes 50 percent and more of the canceling funds dollar amount are on older active contracts. As work is performed on a contract throughout the year, and funds are expended through progress payments or voucher reimbursement, 50 percent or more of the canceling funds are automatically expended. While this is not true at all DCMC locations, it is commonplace at major cost centers such as DCMC LM. These in-plant CAOs administer a large number of contracts which are between six and 15 years old, and funds paid for contract deliverables are often expended in their last year of expiration. [Ref. 37]

The DCMC metric for canceling funds does not provide an accurate representation of actual at-risk funds. Not all canceling funds are treated equally. Several circumstances place a low or no risk on expired funds in their last year of expiration. Funds on active contracts which will be expended in their last year before cancellation do not require close management attention. Additionally, PCOs do not require some funds to be deobligated or replaced, and funds which are tied up in formal litigation cannot be deobligated.

The only funds truly at risk are ULOs from physically complete contracts in specific situations. If the PCO anticipates additional funding requirements from the contract's current status through contract closeout, and the expired funds would be canceled before they could be disbursed to meet those obligations, then the expired funds could be earmarked in the "at risk" category. A more realistic metric for canceling funds

would be a metric which only measures the percent of ULOs which are truly at risk of canceling at the end of the fiscal year.

The results of the three metrics just discussed demonstrate that DCMC is improving its management of the contract closeout process. Open overhead negotiations backlogs have decreased almost 40 percent. Overage contract rates have dropped from the 30 percent range in 1995 [Ref. 12], to their current 16 percent range for all of fiscal year 1998. DCMC's best and perhaps most important improvement has been in canceling funds. While only 64 percent of canceling funds were deobligated in fiscal year 1997, DCMC is on track to meet its 85 percent deobligation goal for 1998.

There is still plenty of room for progress. Late contractor final invoices have become a key concern, and innovations to remedy the problem must be initiated. DCMC should also take a closer look at the contract closeout metrics themselves to determine if they clearly represent an accurate picture of the closeout process. Alternative metrics that reduce the opportunity for manipulation and clearly identify and measure progress should be considered. Additionally, more than one metric should be developed to describe progress made on overage contracts. Use of multiple metrics such as actual number of contracts closed, and percent of contracts closed measured against both active and physically complete contracts, would provide a more accurate depiction of overage progress than the current single metric.

H. CLOSEOUT INITIATIVES

DCMC has developed several initiatives to reduce its backlog of overage contracts and improve its process to close future contracts more quickly. This section studies four

recent initiatives and analyzes their possible impact on DCMC's closeout process. These initiatives include conversion of cost-type contracts to fixed-price instruments, development of paperless contract closeout, creation of the DCMC Overhead Center, and development of the Latest Rates Available / Trend Analysis technique.

1. Contract Conversion

ACOs throughout DCMC have suggested the possibility of converting cost-type contracts to fixed-price instruments in order to expedite contract closeout. In 1997, DCMC investigated the use of contract conversions to close cost-type contracts more quickly. After its lawyers reviewed this practice, DCMC concluded that converting cost-type contracts to fixed-price is contrary to sound contracting principles and cannot be used. [Ref. 27]

Had DCMC determined that converting CR contracts to FP for closeout was a sound business practice, it would have had a dramatic impact on closeout metrics. As stated in Chapter III, the most difficult closeout actions are normally those functions associated with closure of cost-type contracts. Converting CR to FP contracts may allow some or all these steps to be bypassed. However, since DCMC determined the process to be unsound, the Commander has disapproved its use since June 1997. [Ref. 27]

2. Paperless Contract Closeout

In 1997, the Assistant Secretary of Defense, Comptroller issued MRM #2, requiring DoD to move to a Paper-Free Contracting Process by January 1, 2000. DCMC established itself as one of the lead participants in the MRM #2 initiative, and established

four major projects to meet the initiative goals: ACO Modifications, Progress Payments, Receipts/Acceptance (DD Form 250), and Contract Closeout. [Ref. 9]

Successful implementation of MRM #2 could potentially close contracts more quickly, although its impact on contract closeout cannot be easily estimated. DCMC already uses several different automation programs for contract closeout, and the new software would have to either replace or complement the current systems. DCMC has established a Process Action Team (PAT) to re-engineer the closeout process and prepare it for the paperless contracting environment. [Ref. 31]

3. DCMC Overhead Center

An initiative implemented by DCMC to reduce its overage contracts is the Overhead Center. The primary goal of the Overhead Center is to achieve the DoD goal of settling all indirect cost rates within a 24-month period after the end of the fiscal year in which the contract funds were used [Ref. 17].

In order to meet its goal, the Overhead Center established smaller goals for the three tasks required to complete overhead rate negotiations: contractor proposal submission, DCAA audit, and negotiation. The goal of contractor proposal submittal is within six months after the end of the fiscal year. The audit goal is completion within 12 months after receipt of the proposal. Finally, the negotiations settlement goal is within six months after receipt of the audit. [Ref. 17].

DCMC has direct control over the negotiations task. However, it must rely on the contractor to submit timely proposals and DCAA to complete its audit in order to meet its goal. Since the contractor and DCAA portions comprise 18 of the 24 month period,

DCMC only has direct control over one-fourth of the process, making it difficult to directly influence the timeliness of the overhead negotiations process.

4. Latest Rates Available / Trend Analysis

In Memorandum Number 98-12, DCMC outlined a new alternative quick closeout approach. The Latest Rates Available / Trend Analysis (LRA/TA) initiative was developed through a pilot study by an IPT represented by a Program Manager, Financial Manager, DCMC, DCAA and the contractor. The process was devised to allow for

> ...a bilateral contract closeout using the latest available rates when certain factors relative to the contractor's rate history indicate low risks associated with using the latest established rates. This process is designed to allow contract closeout within 6 months, with a stretch goal of 3 months. [Ref. 30]

DCMC found that when the LRA/TA was used, the difference between quick closeout rates and final rates was less than +/- 0.08 percent [Ref. 15]. The difference between this method and standard Quick Closeout Procedures is that all of the major participants in the contract are involved in LRA/TA, and rates are changed incrementally throughout contract performance by using trend analysis. The LRA/TA initiative should provide the ACO with more confidence that the most current rates are accurate, and negotiations should be completed much more quickly.

The limitations of LRA/TA are the same as the limitations for Quick Closeout Procedures. The total unsettled indirect costs per contract still cannot exceed $1 million, and the contractor's accounting system must already be approved. While the LRA/TA may provide the ACO with more confidence in using current indirect rates, its restrictions still limit its use to large cost centers such as DCMC LM.

Further tests using the LRA/TA initiative may result in findings of other weaknesses in the process. Besides the cost limitations associated with the LRA/TA initiative, the level of effort required to study historical trends could be constrained by resource limitations. Additionally, historical trends may not always provide an accurate portrayal of what the most equitable current overhead rates should be. Finally, LRA/TA is only used in low-risk situations, which may limit its use to a small number of cost-type contracts. These limiting factors may result in a small overall impact on reduction of overage contracts.

I. SUMMARY

This chapter analyzed the DCMC contract closeout process in detail. The organization and its role within DoD was discussed. The policies, information letters and tasking letters used to shape the DCMC closeout process were examined, followed by analysis of the closeout process itself. Critical closeout metrics were assessed, and the factors contributing to late closeouts were introduced. Analysis of DCMC's current initiatives to improve its closeout process completed the chapter. The next chapter examines the contract closeout process within DCMC LM. It includes discussion of the contractor and its development of a Contract Closeout Team, as well as the organization of the Closeout Team at DCMC LM. The closeout process is discussed, followed by analysis of major factors contributing to late closeout. Analysis of metrics and DCMC LM initiatives completes the chapter.

V. THE CONTRACT CLOSEOUT PROCESS AT DCMC LOCKHEED MARTIN

A. INTRODUCTION

This chapter focuses on the contract closeout process at DCMC LM. First, the Lockheed Martin Missiles and Space (LMMS) and DCMC LM organizations are discussed. Next, the DCMC LM closeout process is presented, and is compared to the DCMC Headquarters process. The factors leading to late contract closeout at DCMC LM are examined and compared to the DCMC-wide factors. Discussion of DCMC LM's current closeout initiatives, including applicability at other DCMC locations, completes the chapter.

B. LOCKHEED MARTIN MISSILES AND SPACE PROGRAM

This section provides a brief overview of the LMMS organization, its major programs, and its contract closeout team. LMMS is the only prime contractor supervised by DCMC LM. The specialized nature of its business leads to unique contract closeout requirements for DCMC LM.

1. Company Background

LMMS designs, produces and integrates systems for space-based telecommunications, defensive and strategic missiles, remote sensing and space science. Its business base includes the U.S. Government, other foreign governments in the area of military sales, and global commercial customers. LMMS has successfully built and orbited more than 600 spacecraft vehicles for military, civil government and commercial customers. It has built satellites since 1975. The LMMS headquarters is located in San

Jose, California. The company maintains facilities in nine different states across the U.S. and employs about 15,500 workers. [Ref. 45] The company was previously named Lockheed Missiles and Space Division prior to its merger with the Martin Marietta Corporation in 1995.

LMMS' sales to DoD have decreased 20 percent since 1991 [Ref. 14]. However, LMMS has been able to maintain its overall sales at nearly the same level as the 1991 level, after a dip in the mid-1990s, due to its sales shift from DoD contracts to Foreign Military Sales (FMS) and commercial sales. Its main U.S. Government customers are the Navy, Air Force, Army and NASA. [Ref. 44]

2. Major Defense and Space Programs

LMMS is currently the prime contractor or major subcontractor for 11 missile and space programs. LMMS prime contracts include the Fleet Ballistic Missile (FBM) Program, the Milstar Program, the Space Based Infrared System (SBIRS), the Theater High-Altitude Area Defense (THAAD) Program, the Defense Satellite Communication System (DSCS), the Ground Based Interceptor (GBI), the Television Infrared Observation Satellite (TIROS), the Defense Meteorological Satellite (DMSP) Program, and the Hubble Space Telescope. LMMS is also a major subcontractor to Boeing on the International Space Station (ISS) and the Airborne Laser (ABL) contracts. [Ref. 20]

The majority of these contracts are for development of major systems. The contracts are extremely large, complex instruments with several major subcontractors and hundreds of third-tier and fourth-tier subcontractors. These contracts fall into the high-

risk category for delayed contract closeout due to their size, complexity, and the requirement to settle indirect cost rates before they can close.

3. Contract Closeout Team

The LMMS Contract Closeout Team was organized in late 1994 when company officials found that they had an inordinate percentage of overage contracts, and that there were several financial benefits realized by closing out contracts more quickly and efficiently. Before that date, contract closeout was performed at each major system office on a decentralized basis [Ref. 47]. While the number of personnel on the Contract Closeout Team has declined over the past six years, its function is still critical to management at LMMS. [Ref. 53] The organization of the Contract Closeout Team is shown in Figure 8.

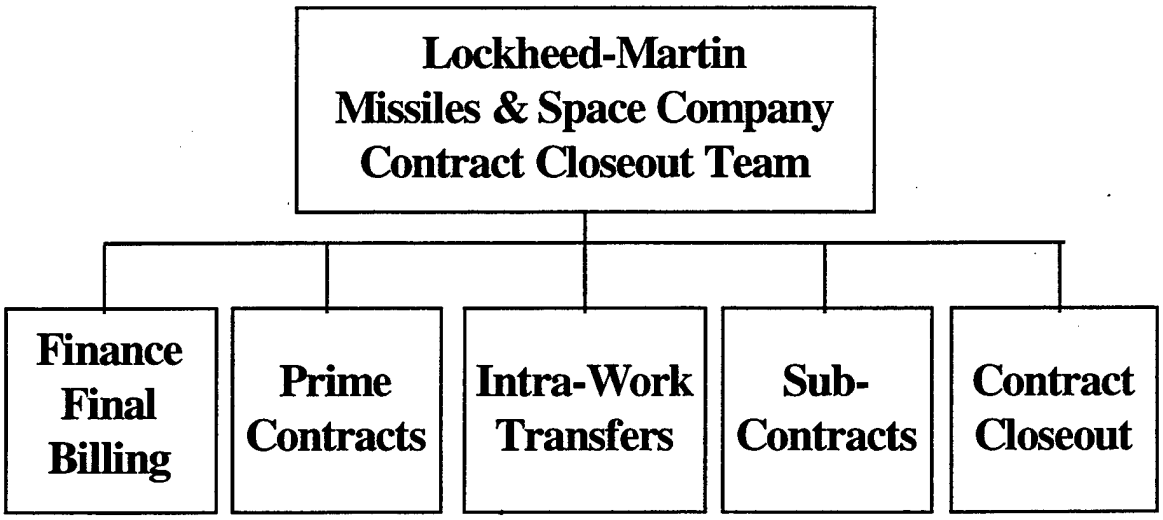

Figure 8. Lockheed Martin Missiles and Space Company Contract Closeout Team.
Source: Ref. 53

C. THE ORGANIZATION

DCMC LM supports a variety of customers around the United States. The mission of DCMC LM is to perform contract administration services for program offices in the Air Force, Army, Navy and NASA. DCMC LM is the in-plant representative for its Government Program Offices. [Ref. 20]

1. Organizational Structure

In 1991, the workforce at DCMC LM consisted of 143 Full-Time Equivalent (FTE) Civilian and 17 military employees. Currently, the organization employs 109 FTEs and 15 military members, a 22.5 percent decrease over the last seven years. Although its workforce size has dropped significantly, DCMC LM currently administers about the same number of contracts it did in 1991. [Ref. 20] The current organizational diagram is displayed in Figure 9. The Contract Closeout Team is managed under the Corporate Support Division of the organization.

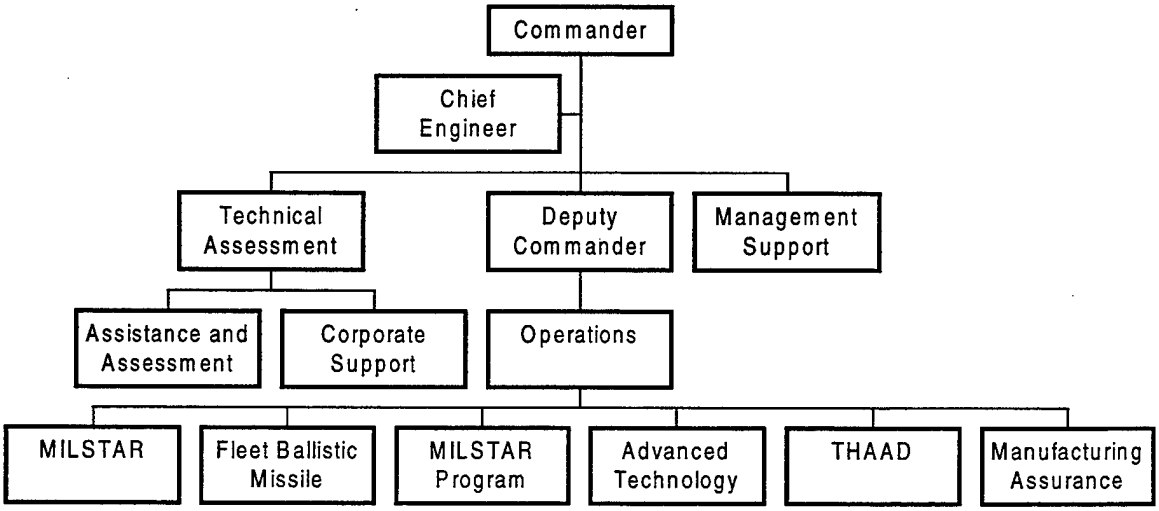

Figure 9. DCMC Lockheed Martin Missiles and Space Organization.
Source: Ref. 20

2. The Contract Closeout Team

The contract closeout team is comprised of nine FTE civilian employees. It is responsible for closing more than 70 contracts per year with an average face value greater than $110 million each [Ref. 20]. Team members include a DACO, who functions as the team leader, six ACOs or Contract Administrators, a Property Officer and a PLCO [Ref. 37]. Contract closeout has been a centralized function at DCMC LM since 1994. Although DCAA is an external organization to DCMC LM, its close involvement and interaction with the rest of the DCMC LM Contract Closeout Team warrants its inclusion on the team. The contract closeout team organization is depicted in Figure 10.

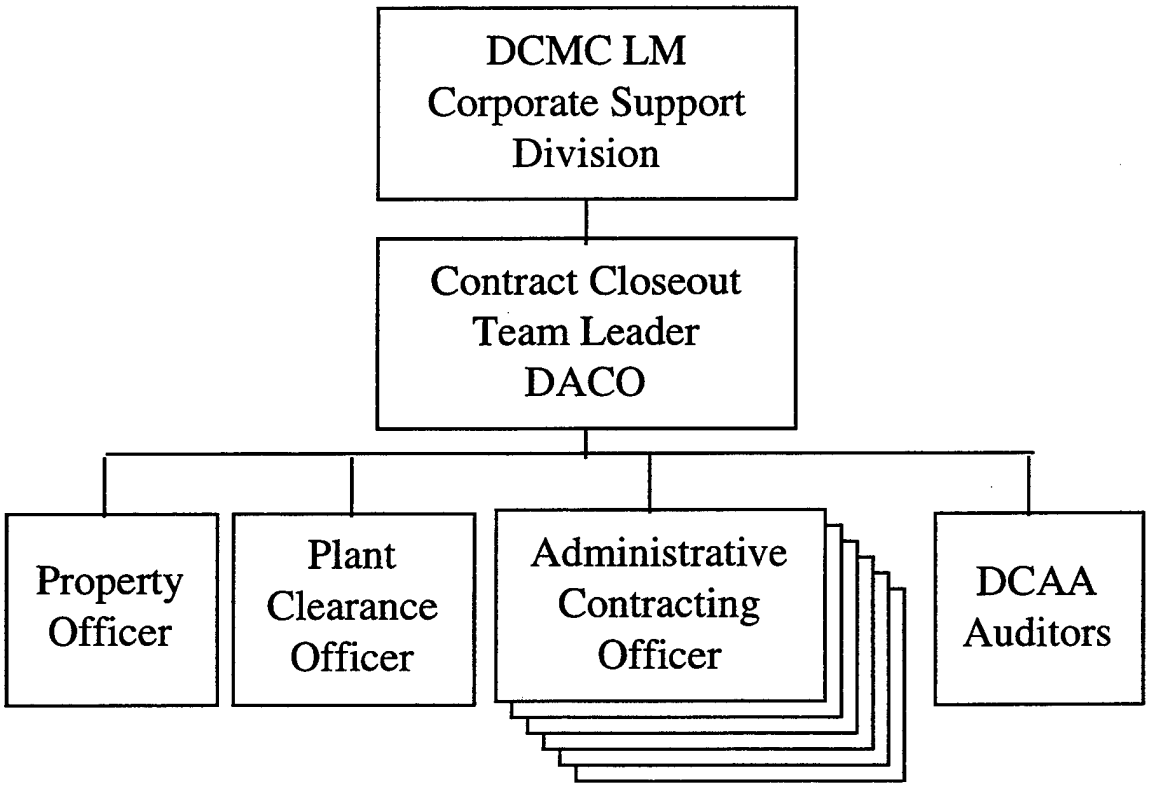

Figure 10. DCMC Lockheed Martin LM Contract Closeout Team.
Source: Ref. 37

One Contract Administrator is assigned to contract closeout on a full-time basis, and each of the other eight team members performs other duties for DCMC. The DACO, Property Officer, PLCO, and other five Contract Administrators all perform contract closeout as an additional duty. DCMC LM budgets only 3.4 FTEs for the closeout process. Besides the one full-time employee assigned to closeouts, the other eight employees average 30 percent of their working hours performing contract closeout actions. [Ref. 37]

Although DCMC LM budgets contract closeout at what appears to be a relatively low level, the function still receives high priority in the organization. The uniqueness of DCMC LM, administering almost exclusively cost-type contracts valued at millions of dollars each, has forced the organization to elevate contract closeout to one of its top ten direct processes [Ref. 24]. Contract closeout is budgeted at that level due to resource restraints and its increased efficiency in managing the closeout process [Ref. 37].

D. THE CONTRACT CLOSEOUT PROCESS

The DCMC LM location performs basic contract closeout functions like most other DCMC locations. However, because of the uniqueness of LMMS as a major cost center, DCMC LM has some specific management issues which have forced it to become innovative in its approach to contract closeout. This section describes some of the unique requirements it must manage, and the teaming arrangement DCMC LM has developed with LMMS and DCAA for contract closeout.

1. Unique Closeout Requirements

The business structure of LMMS creates unique contract closeout requirements for DCMC LM. The LMMS programs are large, ranging from several hundred million dollars to several billion. A majority of the programs are pre-production efforts best suited for cost-type contracts. The average contract size DCMC-wide is about $2.5 million, while the average contract awarded to LMMS is approximately $110 million [Ref. 14]. More than 95 percent of the Government contracts with LMMS are cost-type contracts [Ref. 22].

DCMC LM must contend with two major problem areas not experienced at most other DCMC field offices, namely subcontractor issues and property issues. With several individual contracts worth billions of dollars, major subcontractors often have contracts with LMMS for hundreds of millions of dollars. Privity of contract does not allow DCMC LM to manage subcontractors directly on these large contracts. Property management is impacted at the subcontractor level as well, with millions of dollars in Government property used for subcontract performance.

Finally, DCMC LM must contend with different customer requirements. One of the largest DCMC LM customers is NASA. In some cases, its contract closeout requirements apply restrictions even greater than those found in the FAR. For instance, DCMC LM can use Quick Closeout Procedures for all DoD contracts in which the unsettled overhead costs are not greater than $1 million. Quick Closeout Procedures on NASA contracts, however, are limited to contracts with a total value of not greater than

$1 million. While DCMC LM relies on the DFARS for all of its DoD contracts, it must abide by the rules set forth in the NASAFARS for all NASA contracts. [Ref. 37]

2. Contractor Teaming

In 1994, DCMC LM initiated a Process Oriented Contract Administration Services (PROCAS) IPT to improve its contract closeout process. PROCAS is a DCMC initiative used to add value to the contract administration process.

> PROCAS embodies the fundamental principles of process management - deciding what is important, getting it to work well, and then moving on to improve other things. It promotes common understanding and trust by relying on objective data that both Government and contractors can use to improve performance and facilitate successful contract completion. [Ref. 13]

Although PROCAS is being widely implemented throughout DCMC, it is not commonly used for contract closeout.

The PROCAS Contract Closeout IPT at DCMC LM has developed and implemented six Memorandums of Agreement (MOAs) with LMMS and DCAA [Ref. 19]. The MOAs have been constructed to allow greater flexibility in the closeout process, and ensure better communications between the three organizations.

In early 1998, DCMC LM began a new PROCAS initiative to involve all major participants in the acquisition process in contract closeout [Ref. 13]. The test contract for the initiative is the Navy Fleet Ballistic Missile (FBM) Program. The theory behind this new initiative is that involvement by all participants in the contract closeout process will lead to a more efficient process and less overage closeouts. The two PROCAS initiatives are discussed in Section G of this chapter.

E. ANALYSIS OF FACTORS FOR LATE CONTRACT CLOSEOUT

In Chapter IV, factors impeding the timely closeout of contracts throughout DCMC were analyzed. This chapter examines the factors causing late closeout at DCMC LM and compares the results to DCMC-wide factors. Discussion of the factors begins with the examination of an environmental lawsuit against the Lockheed Corporation.

1. Environmental Lawsuit Impact

In 1993, before the merger of Lockheed Corporation and Martin Marietta Corporation, Lockheed was sued by its insurance company for its claim on environmental cleanup costs. The site involved in the case, located in Burbank, California, was at one time a Government-Owned, Contractor-Operated (GOCO) facility. Decades ago, before many of the current environmental laws were drafted, large amounts of toxic waste and other foreign materials were dumped on the site. In the 1970s, the U.S. Government sold the site to Lockheed for a nominal fee. [Ref. 37]

After the advent of many current environmental laws at both the Federal and state levels, environmental officials assessed the Burbank site and determined that a major cleanup effort was required to comply with the laws. Lockheed, which had taken out an environmental insurance policy on the site, attempted to make a claim for the damages, but still has not received payment on that claim. [Ref. 37]

Since the Government in effect gave the land to Lockheed, it expects them to be responsible for the environmental cleanup. Lockheed contends that its insurance company is liable for the cost of the cleanup, since it bought the environmental policy before any of the environmental laws impacted that location. The insurance company

claims that since the facility was owned by the Government during the period of dumping, the Government should be responsible for the cleanup. The case is still pending in court. [Ref. 37]

The impact of the lawsuit is significant. Corporate indirect cost rates have only been settled through calendar year 1989 [Ref. 47]. At the local level, DCMC LM has settled overheads with LMMS through 1992 [Ref. 37], but will not proceed any further until a determination is made in the lawsuit. The amount of the lawsuit is so large that, for 1992 alone, $54 million in corporate overhead costs will be affected by the outcome of the case [Ref. 37]. In 1993, when the case began, the Space Division comprised about 50 percent of the Lockheed Corporation's sales, so $27.1 million of those affected 1992 overhead costs are flowed down to LMMS contracts [Ref. 19]. The litigation affects all LMMS contracts from 1992 through 2001 [Ref. 37]. The impact of this lawsuit on contract closeout at DCMC LM is discussed in the next section.

2. Factors Causing Late Contract Closeout

The current factors causing late contract closeout are shown in Figure 11. DCMC LM currently administers a total of 288 active and physically complete contracts. Of that total, 164 are categorized as overage as of April 1998, resulting in a 56.9 percent overage rate using the DCMC Headquarters metric. [Ref. 22] This metric is examined in greater detail in the next section. While the LMMS environmental lawsuit is not listed as a factor for late contract closeouts, its impact directly affects the two main factors for delayed closeout: open subcontracts and open overhead rates pending.

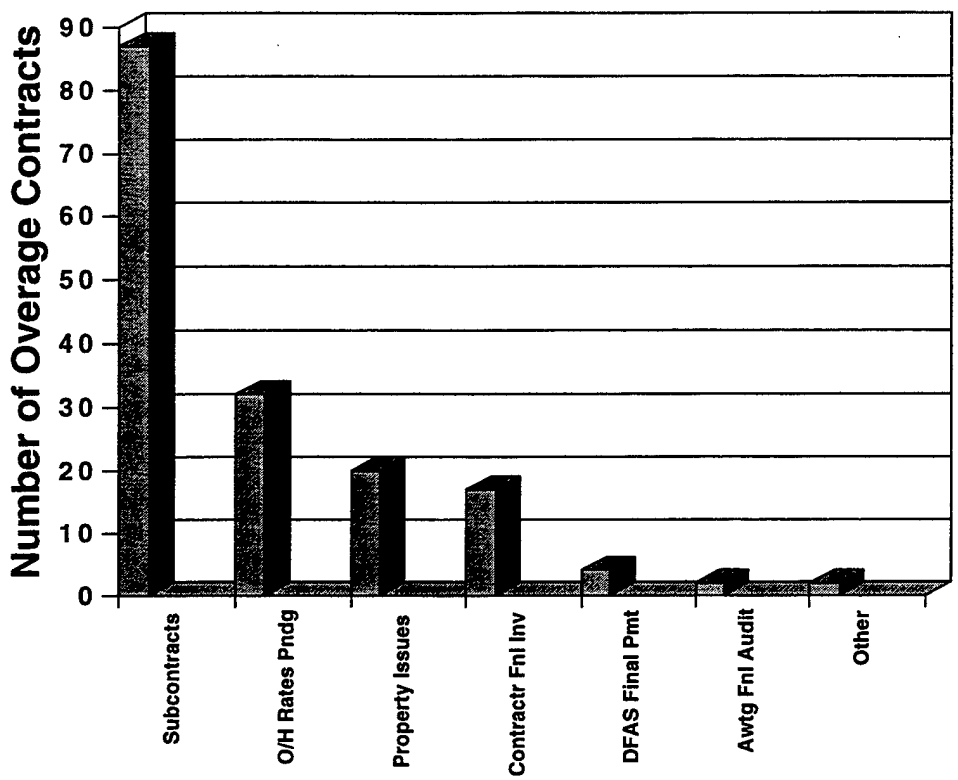

Figure 11. Current Process Drivers for Overage Contracts.
Source: Ref. 19

Open subcontracts currently account for 53.1 percent of all overage completed contracts at DCMC LM. This compares to only 2.5 percent attributed to open subcontracts throughout DCMC. Several factors account for this significant difference.

First, DCMC LM provides contract administration at a major cost center. More than 95 percent of LMMS' open contracts are cost-type contracts, and the average dollar value of each contract is well over $100 million. The average contract value across DCMC is only $2.5 million, and more than 30 percent of all contract types currently administered within DCMC are FFP contracts [Ref. 57]. Large contracts at major cost

centers often involve several major subcontractors and hundreds of second-, third- and fourth-tier subcontractors. All lower-tier subcontracts must be closed before the major subcontracts can close, a process which sometimes takes years to complete [Ref. 37].

Second, cost-type prime contracts create cost-type subcontracts. Subcontracts that are cost-type instruments are subject to the same contract closeout requirements as prime contracts. Thus, the same closeout requirements that slow down the contract closeout process for prime contracts, such as overhead negotiations, settlement of interim or disallowed costs, and contract final audits, also slow down the closeout process for subcontracts. Additionally, hundreds of subcontracts administered by LMMS are so large that they do not qualify for Quick Closeout Procedures. [Ref. 37]

Third, the Government cannot normally exercise direct authority over subcontractors due to privity of contract. The only situation allowing DCMC LM to manage its subcontractors is at the request of LMMS, or if another DCMC field office resides at the contractor location. LMMS only requests DCMC intervention when it feels it has lost management control of its subcontractors. Because subcontracts generally receive less Government oversight than prime contracts, they may be harder to manage for contract closeout.

Finally, the environmental lawsuit levied against LMMS has a direct impact on many of its subcontracts. LMMS typically subcontracts about 40 percent of its contracts to other divisions within the Lockheed Martin Corporation. Although they are formally called Intra-Work Transfers (IWTs), they are still treated as subcontracts by LMMS. However, because they are Lockheed Martin divisions, they are subject to flowdown for

corporate overheads just like the LMMS Division. The impact of the lawsuit prevents these subcontracts from being closed out because of the corporate overhead flowdown. Currently, there are 119 subcontracts which cannot be closed out for this reason alone [Ref. 37].

The second greatest late closeout factor, open overhead rates, presently account for 19.5 percent of DCMC LM's overage contracts. This compares to 22 percent attributed to open overheads throughout DCMC. Although the DCMC-wide and DCMC LM metrics are nearly equal, the reasons for their open overhead rates are somewhat different.

The size of the prime contracts, and even many of the subcontracts, limits DCMC LM's use of Quick Closeout Procedures. As described in Chapter IV, this problem persists throughout the DCMC organization. However, the problem is amplified at major cost centers such as DCMC LM. More than three-fourths of the active contracts awarded to LMMS do not qualify for Quick Closeout Rates [Ref. 22]. Without a relaxation of the FAR restrictions for Quick Closeout use, these limitations will remain a problem for DCMC LM.

As discussed in Chapter IV, the contractor cannot be penalized for submitting late overhead proposals. Without penalties for late submission of overhead proposals, LMMS may have financial incentives to delay as long as possible before submitting their proposals. Unless some sort of penalty system is imposed forcing the contractor to submit timely proposals, DCMC LM may continue to struggle with this problem. Since

more than 95 percent of the contracts are cost-type instruments, this affects most of the contract closeout actions required of DCMC LM.

The ramifications of the environmental lawsuit provide the greatest impediment to closing open overheads at DCMC LM, creating a unique situation for that organization. At least 62 prime contracts, and hundreds of subcontracts arising from those prime contracts, could be closed quickly if the lawsuit were settled immediately [Ref. 37]. As long as the case remains open, its impacts on unsettled overheads and open subcontracts alone will force DCMC LM to remain well above the 15 percent DCMC goal for overage contracts.

Unsettled property issues and late contractor final invoices account for 12.2 percent and 10.4 percent of DCMC LM's overage contracts, respectively. Property issues delay contract closure for two reasons. First, contracts at LMMS are specialized in nature and GFP for both prime contracts and subcontracts is commonplace. The vast amount of property which must be managed and accounted for, along with the geographical dispersion of the property, make it an ongoing issue when disposition is required. [Ref. 19]

Second, LMMS has often delayed disposing of GFP unnecessarily at subcontractor sites until the prime contract is physically completed. After certain performance measures have been met and the property is no longer required at the site, the property should be disposed of immediately. In the past, LMMS has often waited until its prime contract was physically complete before disposing of subcontract GFP. Since contracts cannot close until all Government property receives proper disposition,

these two issues continue to delay contract closure at DCMC LM. A PROCAS team has recently been formed to expedite the disposition of subcontract GFP immediately after the physical completion of subcontracts. [Ref. 19]

Late contractor final invoices result from a lack of penalties for late submission and the large percentage of cost-type contracts awarded to LMMS.

> Since over 90 percent of the contracts (awarded to) LMMS are cost reimbursable, LMMS has received almost all cost and fee via interim public vouchers. As a result, the financial incentive for LMMS to issue the final voucher and close contracts has been very low. [Ref. 19]

Because of the nature and type of contracts awarded to LMMS, the contractor may have financial incentives to delay submission of final invoices. If it has been overpaid interim rates, or has billed for costs which it knows may be questionable, the contractor may choose to delay final invoice submittal as long as possible. Without penalties to ensure timely final invoices are received, DCMC LM must find innovative ways to incentivize the contractor to submit its final invoices.

As mentioned in Chapter IV, the interrelation of overage factors does not always provide a clear picture of the real impediments to contract closeout. When contracts are overage due to several factors, DCMC LM must report a single reason. DCMC LM reports the action that must be taken first to close the overage contract. For instance, if a contract is overage due to open subcontracts and open overhead negotiations with the prime contractor, DCMC LM reports open subcontracts as the reason for delay in closeout, since the subcontracts must be closed prior to settlement of overhead rates with

the prime contractor. For most of its overage contracts, DCMC LM could list several factors for delayed closeout. [Ref. 37]

F. ANALYSIS OF CLOSEOUT METRICS

DCMC LM must track and report the ten contract closeout metrics required by DCMC headquarters. DCMC LM has also developed two alternative closure metrics for internal management purposes, which are discussed in later in this section. This section presents the same three metrics managed closely by DCMC Headquarters to provide a basis for comparison.

1. Metrics Results and Analysis

Metrics discussed and analyzed in this section include: (1) Open Overhead Negotiations, (2) Percent Overage, and (3) Funds at Risk of Canceling. The periods of data collection at DCMC LM are the same as those for DCMC Headquarters.

a. Open Overhead Negotiations

Figure 12 depicts the results of DCMC LM's Open Overhead Negotiations. Figure 12 is constructed similarly to the DCMC Headquarters (Figure 5) in Chapter IV.

For Open Overhead Negotiations, DCMC LM appears to measure favorably against the DCMC-wide metric. The DCMC-wide metric for negotiation backlogs shows an upward trend throughout 1997, from 53.2 percent of its workload in January to 58 percent in December [Ref. 12]. The DCMC LM backlog reduces from 60 percent in January to 56.5 percent in December [Ref. 37]. However, there are current

circumstances which will continue to negatively impact DCMC LM's overhead negotiations metric for the foreseeable future.

OPEN OVERHEAD NEGOTIATIONS

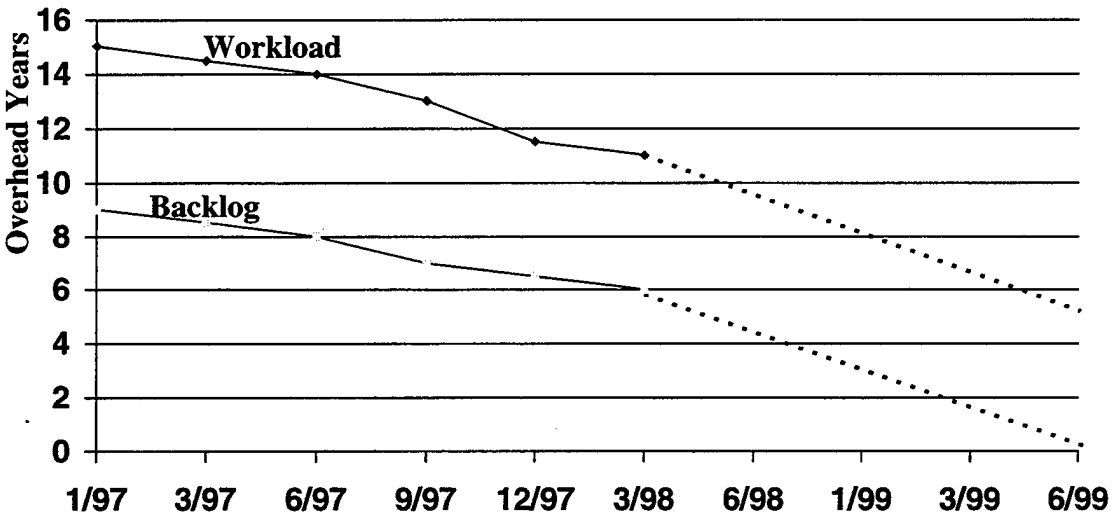

Figure 12. DCMC LM Overhead Negotiations Workload and Backlog.
Source: Ref. 37

The primary cause for late overhead negotiations is the environmental lawsuit. After the merger of Lockheed and Martin Marietta in 1995, the LMMS division now maintains about 25 percent of the LM sales [Ref. 37]. Corporate overhead flowdown on individual contracts is significant, and often comprises a major portion of the total overhead costs on any given contract.

The disputed amount of overheads in litigation is too large to dismiss the unsettled overhead costs. Until the lawsuit is settled, DCMC LM can settle indirect cost rates at the local level. However, with LMMS maintaining 25 percent of the LM sales, corporate

overhead flowdown is too great to perform final overhead rate settlements and close those contracts completed since 1992.

The second impact is late contractor overhead proposals. As mentioned in the previous section, LMMS may have financial incentives to delay submittal of its overhead proposals as long as possible. If it is being paid interim rates that are higher than its anticipated final rates, or if it has submitted and been reimbursed for interim vouchers for costs it knows won't be allowable, its best course of action may be to delay proposal submission as long as possible. Unless sanctions for late final invoices are written into the FAR, or contracts are awarded with clauses penalizing late submission, LMMS may continue to have incentives to delay submitting those proposals.

b. Percentage of Overage Contracts

The Contract Closeout chart, show in Figure 13, compares DCMC LM's percentage of late contract closeouts to the DCMC Headquarters goal of no more than 15 percent overage contracts. The data used from the chart were collected from the beginning of fiscal year 1998 through February 1998.

This metric displays significant differences between DCMC LM and the DCMC-wide overage percentage. The use of the overage metric as it is currently structured shows that DCMC LM maintains an average in the 50 to 60 percent overage range. The metric doesn't show the progress DCMC LM has made in contract closeouts over the past five years.

The DCMC organization embodies a wide variety of field offices, yet very few like DCMC LM. At the major cost centers like DCMC LM, overage contracts typically run in the 40 to 60 percent range [Ref. 21], and are influenced by a number of factors. These factors include the size and complexity of contracts, number of lower-tier subcontractors, and significant property issues. As discussed in Chapter IV, this metric does not measure actual progress made in contract closeout, especially in organizations like DCMC LM.

PERCENT OVERAGE CONTRACTS AT DCMC LM

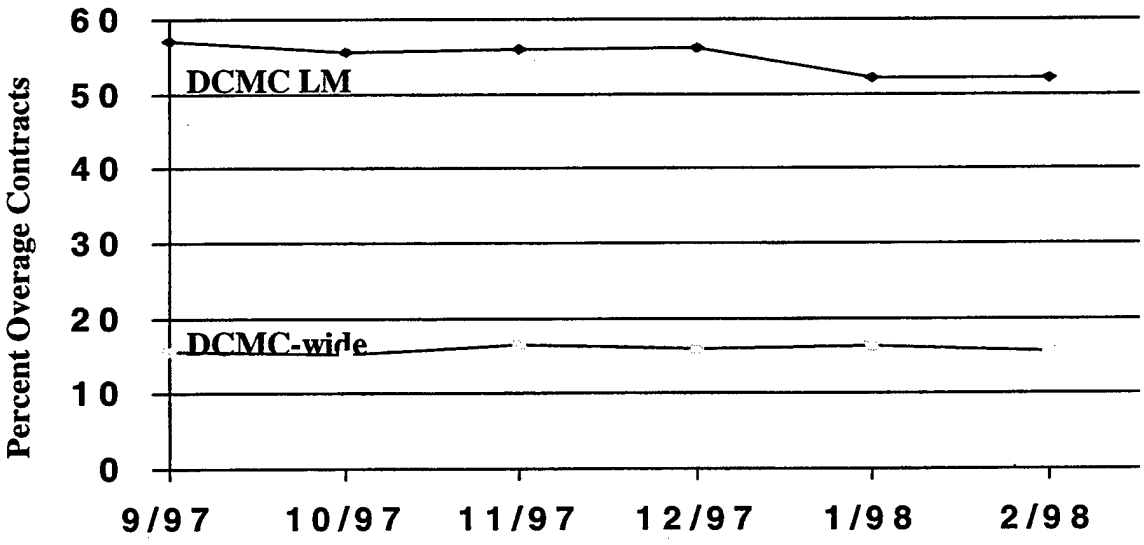

Figure 13. DCMC LM Overage Contract Status.
Sources: Ref. 12 and Ref. 21

Figure 14 gives a more accurate depiction of how DCMC LM has improved its actual contract closeout process in recent years. This chart is used as an internal management tool to track the actual number of contracts closed at the end of each

fiscal year. After the advent of the PROCAS team in early 1995, actual contracts closed rose dramatically.

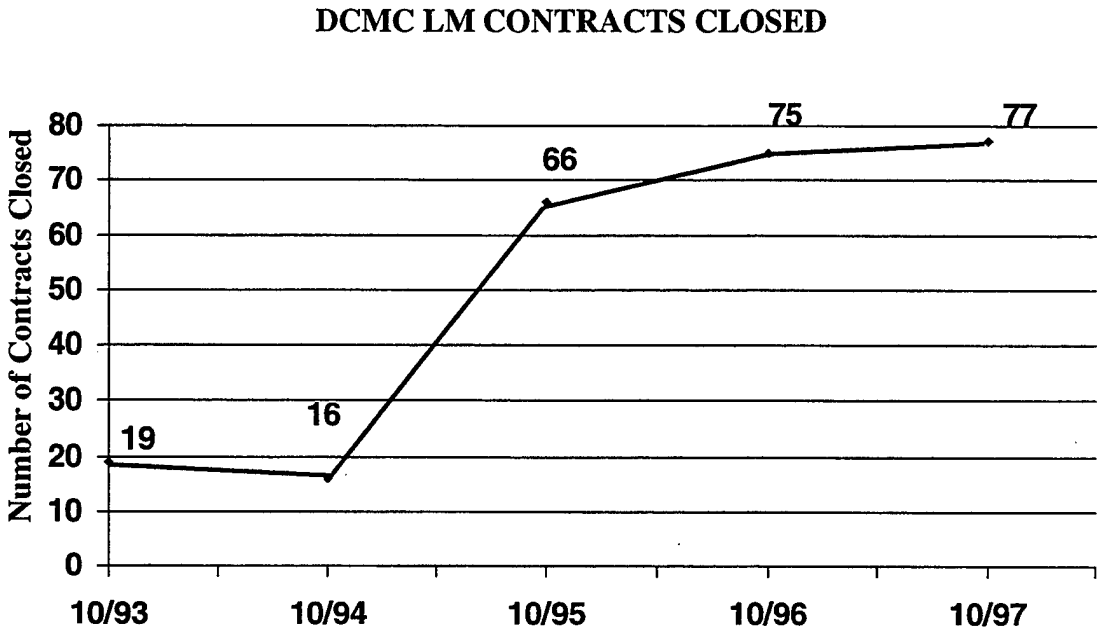

Figure 14. DCMC LM Number of Contracts Closed by Fiscal Year, 1993-1997. Source: Ref. 21

The impact of the pending environmental lawsuit against LMMS will hinder the number of contracts DCMC LM can close over the next few years. However, if the lawsuit were settled immediately, 62 prime contracts held up strictly by overheads resulting from the case could be closed [Ref. 37]. This would immediately lower the current overage rate to 35 percent. Until the lawsuit is settled, more contracts currently nearing the FAR limits for closeout will move into the overage category.

c. Canceling Funds

Figure 15 compares DCMC LM's actual canceling funds with the DCMC goal for fiscal year 1998. In order to reach its 85 percent recovery goal, DCMC LM must

reduce canceling funds from about $21 million at the beginning of fiscal year 1998 to just over $3 million at the end of the fiscal year.

DCMC LM CANCELING FUNDS FOR FY 1998

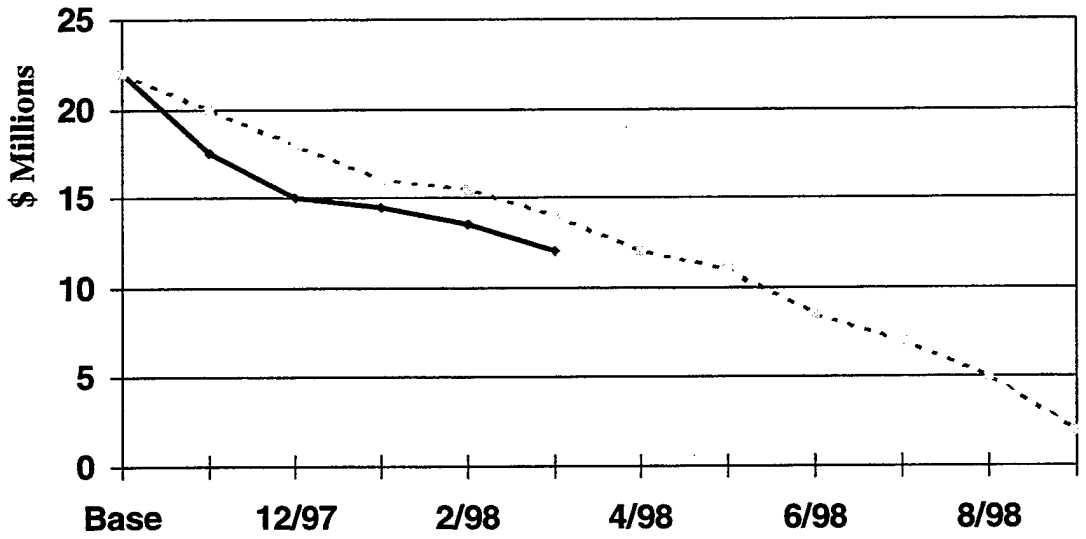

Figure 15. DCMC LM Canceling Funds and Goal for FY 1998.
Source: Ref. 24

DCMC LM is currently ahead of the DCMC Headquarters goal for canceling funds for two reasons. First, more than half of the canceling funds are not truly at risk of canceling. As mentioned in Chapter IV, active contracts often run for long periods of time, and will use canceling funds in their last year of expiration. At DCMC LM, contracts average about 4.25 years in length, and more than 60 contracts are six years or older [Ref. 37]. Of the $21 million canceling funds for fiscal year 1998, only $9 million is truly "at risk." The remaining $12 million will be spent for performance of active contracts [Ref. 21].

Second, the Navy PCO for the FBM Program has delegated the authority to DCMC LM to deobligate funds upon physical completion of contracts. This includes nearly 140 active contracts valued at several billion dollars on this program [Ref. 18]. The PCO's delegation of authority to DCMC LM is important because it allows them to quickly deobligate funds at high risk.

The current metrics used to report contract closeout progress to DCMC do not accurately represent the actual progress made in contract closeout at DCMC LM. The ability to manipulate numbers to lower overage percentages, the pending lawsuit that artificially inflates open overhead negotiations and increases the percentage of overage contracts, and mixing active contract canceling funds with closeout funds provides an unclear representation of the contract closeout process at DCMC LM. The next section describes alternative closeout metrics developed by DCMC LM which are easily measured, provide identifiable achievement, and may be applicable to any DCMC organization.

2. Alternative Closeout Metrics

DCMC LM uses several alternative closure metrics in addition to the metrics it reports to DCMC Headquarters. These metrics provide a more accurate measurement of the contract closeout process than the current metrics used by DCMC Headquarters.

a. Contracts Closed as a Percentage of Contracts in Closure

As stated in Chapter IV, the current DCMC metric of Overage Contracts has flaws which allow it to be manipulated to best suit the reporting organization. By

holding physically complete contracts in the active category and moving large numbers of them into the physically complete category at the appropriate time, managers can decrease their percent of overage contracts without ever closing a single contract. DCMC LM has revised the metric to provide identifiable achievement in contract closeout.

Rather than focusing on the base, DCMC LM's metric focuses on the numerator, which is the actual number of contracts closed. Instead of measuring overage contracts, which allows manipulation of the denominator, the metric measures contracts closed as a percentage of contracts in the physically complete category. The organization can only show improvement when it actually closes contracts. DCMC LM's metric for fiscal year 1997 is shown in Figure 16.

PERCENT CONTRACTS CLOSED / IN CLOSURE

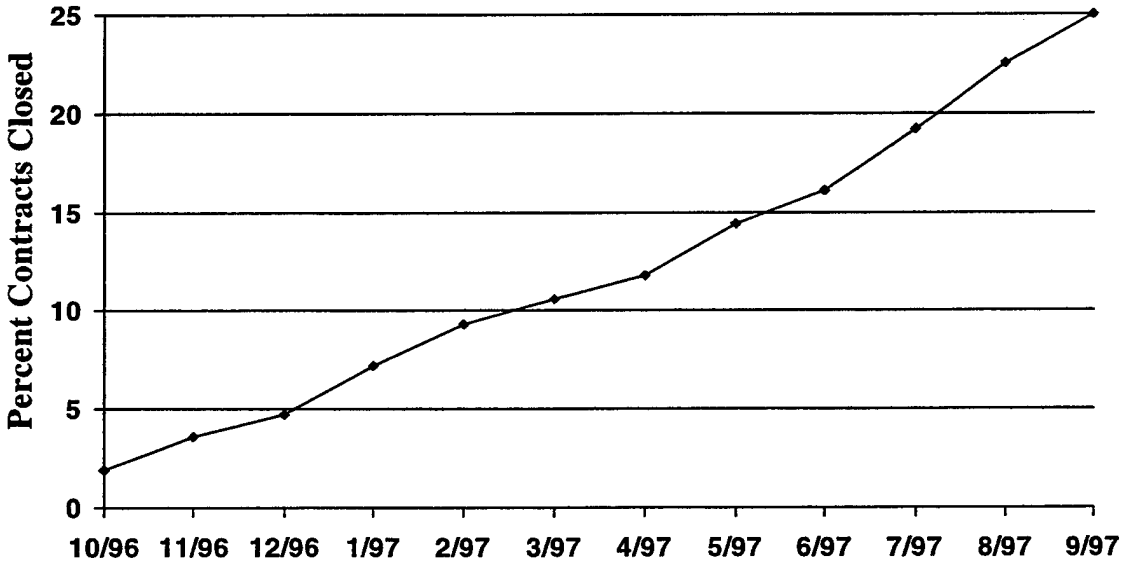

Figure 16. Contracts Closed as a Percent of Contracts in Closure for FY 1997.
Source: Ref. 21

DCMC currently uses its Contracts Closed as a Percentage of Contracts in Closure metric as an internal management tool, although it has recommended use of the metric throughout the DCMC organization. While this metric provides a better measurement tool for progress made in contract closeout, it is not meant to be used alone. If other supplementary metrics were used, such as actual number of contracts closed and contracts closed as a percentage of both active and physically complete contracts, it would provide a more complete picture of actual progress made in the contract closeout process.

b. Percent of Canceling Funds to ULO

DCMC LM has also developed an alternative metric to measure its progress in canceling funds. The current DCMC metric for canceling funds does not separate at-risk funds from funds that are spent for active contract performance and other reasons. This metric measures the true risk of the canceling funds process. It is computed by measuring the amount of funds scheduled to cancel at the end of the fiscal year for contracts in the physically complete category only.

Separating the "in closure" funds from the active contract funds gives DCMC a better representation of its progress in reducing at-risk funds. As discussed in Chapter IV, funds appropriated for active long-term contracts are often expended in their last year of expiration, and cannot truly labeled as "at risk." This alternative metric ignores the canceling funds which will be used to pay for active contract deliverables and

focuses on only those funds obligated on physically complete contracts. DCMC LM's alternative canceling funds metric is shown in Figure 17.

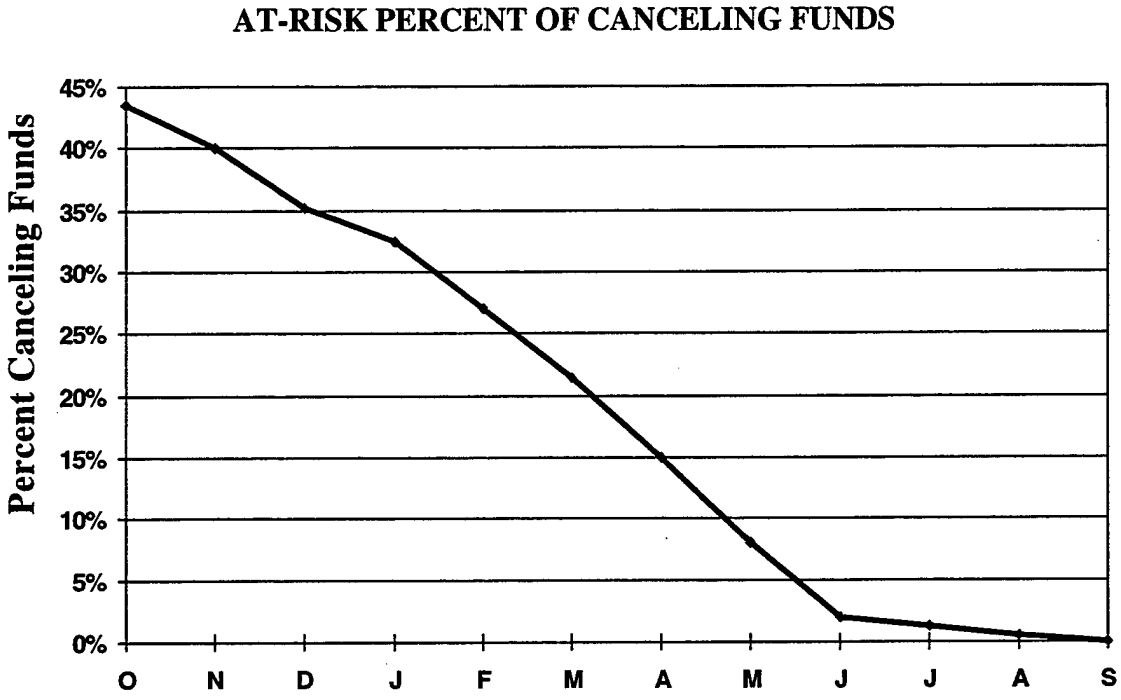

Figure 17. DCMC LM Percent of Canceling Funds to ULO for FY 1997.
Source: Ref. 21

In fiscal year 1997, DCMC LM deobligated almost all of its canceling funds. Of $2.5 billion at-risk ULOs on physically complete contracts, it deobligated all but $2.9 million of the canceling funds, a deobligation rate of 99.89 percent [Ref. 21]. Although its overage contracts percentage remained high, DCMC LM deobligated virtually all of its canceling funds, which can now be used for other purposes.

G. CURRENT CLOSEOUT INITIATIVES

DCMC LM has been proactive in managing its contract closeout process for more than three years, resulting in a significantly improved process. This section describes the

effects of the recent policies and initiatives from DCMC Headquarters, and then describes the major initiatives being developed at DCMC LM.

1. Effects of DCMC Headquarters Policies

The recent policy, tasking and information letters currently developed by DCMC Headquarters discussed in Chapter IV have had a minimal impact on DCMC LM's contract closeout operations. Although the DCMC Headquarters memorandums may impact contract closeout at other field offices, the unique closeout requirements at DCMC LM do not allow it to take advantage of the benefits of these policies.

DCMC Tasking Memorandum Number 98-161 requires field offices to team with their DCAA counterparts to obtain overdue final overhead proposals. What it does not require is teaming with the contractor. The FAR states that the Acquisition Team

> ...consists of all participants in Government acquisition including not only representatives of the technical, supply, and procurement communities but also the customers they serve, and the contractors who provide the products and services. (emphasis added) [Ref. 39: Sec. 1.102c]

As discussed in Chapter IV, the requirement for DCMC and DCAA to team on overhead proposals cannot guarantee timely proposal submission. The critical third link, the contractor, is missing. Without contractor involvement on the overhead proposal team, DCMC LM cannot easily enforce the timely submittal of contractor final overhead proposals.

Even if Memorandum Number 98-161 required contractor inclusion in the overhead proposal teaming arrangement, it would have little impact on many of the contracts administered by DCMC LM due to the pending environmental lawsuit against

LMMS. The lawsuit forces overhead negotiations to remain open on all affected contracts, regardless of DCMC Headquarters policy. Until the lawsuit is settled, the 62 overage contracts will continue to remain open, and will be joined by more impending overage contracts.

DCMC Memorandum Number 98-004, which instructs field offices to develop an implementation plan for property affected by MRM #5, also has little impact on DCMC LM's contract closeout process. DCMC LM is one of the main administrators of Government property. The Property Officers at DCMC LM already manage property throughout the performance of the contract. The problems encountered in the disposition of that property, including geographical dispersion and specialization of the property used, are not impacted by the DCMC Memorandum. Property management at DCMC LM already meets or exceeds the intent of MRM #5 without the intervention of the DCMC Memorandum.

The Canceling Funds Monthly Report added a management burden to DCMC LM. Although it deobligated nearly 100 percent of its canceling funds in 1997, while the deobligation rate DCMC-wide was only 64 percent, it is still required to forward the report each month. Submitting the Canceling Funds Monthly Report requires extra resources DCMC LM cannot afford to expend.

2. Effects of DCMC Headquarters Initiatives

Analysis was provided in Chapter IV for several initiatives recently introduced by DCMC Headquarters to improve the contract closeout process, including Paperless Contract Closeout, the development of the DCMC Overhead Center, and the LRA/TA

technique. None of these initiatives has significantly impacted DCMC LM's contract closeout process.

The Paperless Contract Closeout initiative is still in its development stage. It is being developed as a part of the Paperless Contracting initiative originated by the Under Secretary of Defense for Acquisition and Technology. Although Paperless Contract Closeout may provide some added efficiencies in the contract closeout process, DCMC organizations already use several types of software in their everyday business. In order to allow these organizations to become more efficient in contract closeout, Paperless Closeout must not only improve on these systems, but must also interface easily with the other software used throughout these organizations.

The Overhead Center was developed by DCMC as a managerial tool at the Headquarters level. The only assistance it provided to its field organizations was the breakdown goals for proposal submission, audit, and negotiation. As discussed in Chapter IV, DCMC LM only has direct control over one-fourth of the overhead process. The LRA/TA initiative limits early closure nearly as much as Quick Closeout Procedures at DCMC LM. Since only one-fourth of their contracts even qualify for early closure, this initiative cannot significantly impact DCMC LM's closeout process.

3. DCMC LM Initiatives

Besides the development of alternative contract closeout metrics, DCMC has developed two other major initiatives to improve its contract closeout process. This section describes the two PROCAS teams and the innovations they have produced.

a. PROCAS Contract Closeout Team

In early 1995, DCMC LM initiated a PROCAS Contract Closeout Team. The Team consists of representatives from the DCMC LM Contract Closeout Team, DCAA, and the LMMS Contract Closeout Team. The PROCAS Team developed a series of six MOAs to provide a more efficient contract closeout process and allow a "meeting of the minds" between the three organizations. The PROCAS Closeout Team produced the following innovations:

- Interim billing rates were approved as early closure rates. This initiative affected 25 prime contracts and reduced closeout time by one year.
- Sample audits on Prime contracts and task orders with a value of less than $500,000 were waived. This affected 32 prime contracts, reduced closeout time by six months, and reduced DCAA hours by 40 percent.
- Costs recorded outside the contractual period of performance received limited review. This affected the closeout of 17 prime contracts and reduced closeout time by 90 days.
- Audits for subcontracts and Intra-Work Transfers (IWTs) were waived for subcontracts valued at less than $100,000. This affected the closeout of 25 prime contracts and reduced closeout time by 90 days.
- The requirement to process final invoices for under $1,000 was removed, resulting in savings of $50,000 per year in both overhead costs and canceling funds, and affecting the closeout of 45 prime contracts. [Ref. 21]

The PROCAS Contract Closeout Team has produced a significantly improved contract closeout process. In the two years preceding the Team's existence, DCMC LM closed only 35 prime contracts. DCMC LM has closed 218 prime contracts in the three years since its inception. Audit time has been reduced from an average of 95 days per

contract in 1995 to only 38 days per contract in 1997. A projected $14.8 million in management costs has been saved to date. [Ref. 21]

DCMC LM's success with its PROCAS Contract Closeout Team was emulated by DCMC Boeing, another major cost center, in 1996. Boeing's use of a PROCAS team for contract closeout resulted in its winning the DCMC Retread Award, which is given to those organizations who recreate a successful practice initiated at another organization [Ref. 37]. Because of the success of these two teams, DCMC District West is considering implementation of the program at its other major cost centers.

b. PROCAS FBM Team

In early 1998, DCMC LM initiated another PROCAS Team to improve the contract closeout process on its largest program, the FBM. The FBM is a strategic nuclear weapon system based on submarines. The program encompasses more than 100 prime contracts and has a cumulative value of more than $6 billion. LMMS currently produces the missiles in a consolidated joint venture with Alliant and Thiokol. [Ref. 20]

The objective of the FBM PROCAS Team is to identify barriers to the contract closeout process, eliminate those barriers, and anticipate final closeout dates on both its prime contracts and subcontracts [Ref. 23]. The Team was formed in order to include all major players in the contract closeout process. The Team members include representatives from the Navy program office, DCMC LM, LMMS, DCAA, other joint contractors and major subcontractors.

The FBM PROCAS Team extends contract closeout management through greater communications between all organizations involved in the contract. It regularly brings together all of the major participants in the acquisition process to discuss and solve the latest issues which could delay closeout on the program's contracts. Although still in its infancy, the FBM Team anticipates greatly increased efficiency in contract closeout and savings of millions of dollars over the next several years on the program.

4. Applicability of DCMC LM Initiatives to Other DCMC Organizations

The alternative contract closeout metrics and two PROCAS teams developed by DCMC LM can be easily emulated at most other DCMC organizations. The metrics are easy to measure and report, and accurately represent actual progress made in the contract closeout process. Initiating PROCAS teams for contract closeout is also a viable option. PROCAS initiatives are gaining popularity as an industry best practice throughout DCMC. The only barrier likely to be encountered is resistance from some contractors and DCAA field offices to join the teams.

H. SUMMARY

This chapter analyzed the contract closeout process at DCMC LM and compared it to closeout management at DCMC. Discussion of the specific LMMS contracts and programs showed the unique closeout problems faced by DCMC LM. Metrics analysis at DCMC LM and comparison to DCMC metrics led to the discussion of the alternative contract closeout metrics developed by DCMC LM.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCTION

This thesis analyzed the contract closeout process at DCMC LM. An in-depth discussion of contract closeout management within the entire DCMC organization provided a baseline to measure DCMC LM's performance. This chapter provides conclusions drawn from the case analysis and provides recommendations to improve the contract closeout process. The primary and secondary research questions are reviewed, and suggestions for further research are discussed.

B. CONCLUSIONS

The scope of this research effort has led to several conclusions concerning contract closeout within DoD, the DCMC organization and DCMC LM.

Conclusion 1. Timely contract closure depends on a variety of factors such as the size, complexity, contract type, and other items often beyond the ACO's control.

As described in Chapter III, Section D, many factors contribute to overage contracts, and late contract closeout is often a result of multiple causes beyond the scope of the contracting officer's control. By the time the ACO begins to administer the contract, the contract type, size, subcontractor selection and many other details are already decided. As discussed in Chapter IV, Section H, the ACO cannot legally convert the contract from a cost-type to a fixed-price type contract to bypass some of the more difficult steps in contract closeout.

Conclusion 2. DoD does not place a priority on contract closeout during pre-award procedures.

As stated in Chapter IV, Section F, most overage contracts are the result of late overhead negotiations and late contractor final invoices. Many of these late contract closeouts could be avoided by the use of pre-award agreements. Areas such as overhead rates, subcontractor management, penalties for late contractor final billing and use of Alternative Dispute Resolution (ADR) procedures are all candidates for pre-award agreements.

Conclusion 3. Currently, there are no penalties in place for contractors who submit late final invoices or late submission of final overhead proposals.

As discussed in Chapter IV, Section F, and Chapter V, Section E, late contractor final invoices and open overhead negotiations are currently the two most significant factors for overage contracts administered within DCMC. There are no penalties assessed to contractors who submit late final invoices or late final overhead proposals. Without any penalties or pre-award agreements in place, contractors may have financial incentives to submit late final invoices and overhead proposals.

Conclusion 4. The Percent Overage metric used by DCMC to track overage closeouts does not accurately represent the actual percentage of overage contracts.

As stated in Chapter IV, Section G, and Chapter V, Section F, the current DCMC metric for percent of overage contracts may be manipulated by holding physically

completed contracts in the "active" category and then releasing them into the "physically complete" category at the appropriate time, without actually closing any contracts. The DCMC LM alternative overage contract metric provides a more accurate representation of actual progress made in closing overage contracts, although no single metric can provide an accurate overall picture of the progress made in reducing overage contracts.

Conclusion 5. Despite recent efforts and initiatives, DCMC has not lowered its percent of overage contracts.

As discussed in Chapter IV, Section G, DCMC's overage contracts have fluctuated up and down above its 15 percent overage goal for almost 18 months. Although several of its recent initiatives have not had enough time to mature, none of the current initiatives will allow DCMC to reach and maintain its goal for any extended period of time.

Conclusion 6. Quick Closeout Procedures contain limitations which are too restrictive to provide adequate use by large cost centers such as DCMC LM.

As mentioned in Chapter IV, Sections F and H, and Chapter V, Section E, large costs centers such as DCMC LM administer a substantial number of cost-reimbursable contracts which surpass the Quick Closeout Procedures' limitation of $1 million in unsettled overhead costs per contract. DCMC's LRA/TA initiative, described in Chapter IV, provides DACOs with greater confidence that their negotiated rates are accurate and fair. However, the LRA/TA initiative still requires the DACO to adhere to the limitations of the Quick Closeout Procedures, in effect restricting their use as much as Quick Closeout Procedures.

Conclusion 7. The inability of prime contractors to settle contracts with subcontractors is often the sole reason for overage contracts at large cost centers such as DCMC LM.

As described in Chapter V, Section E, there are several causes for unsettled subcontracts. Subcontractor refusal to submit to prime contractor audit, late overhead proposals, and a lack of identifiable contract records exacerbate the subcontract closure process.

Conclusion 8. The inability of DCMC LM to settle indirect cost rates with Lockheed Martin Missiles and Space Company is primarily due to late flowdown of Lockheed Martin's corporate overhead rates.

As discussed in Chapter V, Sections E and F, overhead rates between the Government and the Lockheed Martin Corporation have not been settled for any year since 1989 due to a pending environmental lawsuit levied against the corporation. Until the lawsuit is settled, corporate overheads charged against contracts at the Lockheed Martin Missiles and Space Division will continue to prevent DCMC LM from settling local indirect cost rates.

C. RECOMMENDATIONS

The following recommendations are made based on the conclusions stated in Section B above.

Recommendation 1. Develop procedures to identify and monitor at-risk contracts early in the contract administration process.

Many overage contracts are large, complex, cost-type instruments with several large subcontractors. Contracts which fall into these categories can be identified and monitored early in the contract administration process, and even prior to contract award. Closer management attention to at-risk contracts early in the acquisition process will solve many of the closeout issues even before the contracts begin the closeout process.

Recommendation 2. Develop pre-award agreements or contract clauses which will allow contracts to close in a timely manner.

Although not currently used, pre-award arrangements for contract closeout could be developed for areas such as overhead negotiations, property management, and contractor final invoices. Using formal documents in the pre-award phase of contracts will ensure that they are not overlooked or lack priority at the end of contract performance. For instance, the Government and contractor can agree before award that if overhead rates are not settled within 12 months after physical completion, mediation, arbitration or some other form of ADR can be used to settle the disputed rates.

Recommendation 3. Establish strict penalties for late submission of contractor final invoices and overhead proposals.

Contractors are often aware that they have been overpaid during contract performance, and it is financially beneficial for them to wait as long as possible to submit final invoices. The Government should enforce the time limits provided in the FAR for submission of final invoices and overhead proposals, and penalize contractors who submit invoices and proposals beyond those time limits.

Recommendation 4. Use supplemental contract closeout metrics, including DCMC LM's alternative closeout metrics, to provide a more complete picture of actual progress made in the contract closeout process.

The Contracts Closed as a Percentage of Contracts in Closure provides a better representation of DCMC's overage contract status than the current metric used. This alternative prevents manipulation of the current metric and provides DCMC with a true representation of progress made in closing overage contracts. The Funds at Risk of Canceling should also be revised to separate active contracts funds from physically complete contracts funds. Deletion of active contract funds due to be expended provides a true measure of funds at risk of cancellation for physically complete contracts. Supplementary metrics, such as actual number of contracts closed and measurement of closure against both active and physically complete contracts, should be used to provide a better overall picture of progress made in the contract closeout process.

Recommendation 5. Develop initiatives which allow the contractor and DCAA to become more involved in contract closeout.

DCMC LM has proven that PROCAS teams can significantly improve its contract closeout process. By using such initiatives throughout its organization, DCMC may find that it can eventually control more than 85 percent of contract closeout actions, and its overage percentage could drop dramatically. PROCAS initiatives are successfully being completed for a variety of contract functions throughout DCMC. The contract closeout process, already requiring substantial coordination between DCMC, the contractor, and DCAA, is well suited for initiation of PROCAS initiatives throughout DCMC.

Recommendation 6. Relax the restrictions in the Quick Closeout Procedures to allow more widespread use.

Only about one-fourth of all contracts administered at large cost centers such as DCMC LM can use the Quick Closeout Procedures due to dollar limitations in the FAR. Changing the $1 million per contract unsettled overhead costs to $1 million per year per contract allows as much as 50 percent more of these large contracts to close using the Quick Closeout Procedures with minimal additional risk to the Government.

Recommendation 7. Allow DCMC organizations to close contracts using interim rates when warranted.

DCMC LM cannot currently reduce its percent of overage contracts due to the impact of the environmental lawsuit pending against LMMS. Each contract now in the physically complete but not overage category that requires settlement of overhead rates will automatically become overage because of corporate overhead flowdown. Both DCMC LM and LMMS would like to close overage contracts but cannot do so until the lawsuit is settled. Using interim rates to close affected low-risk contracts would allow DCMC LM to quickly reduce its backlog of overage contracts.

D. SUMMARY AND REVIEW OF RESEARCH QUESTIONS

To accomplish the primary and secondary objectives of this thesis, fundamental research questions were developed. The responses to these questions are now provided. The subsidiary questions will be answered first, followed by the primary question.

Subsidiary Question 1: What are the current contract closeout policies and procedures in the Defense Contract Management Command?

The current policies and procedures for contract closeout were discussed in Chapter III, Section D, and Chapter IV, Sections D and E. DCMC uses a series of policy, information and tasking memorandums to communicate its intent to field organizations. DCMC uses the FAR and DFARS regulations as the baseline for its closeout process. Its current procedures for contract closeout are managed through the One Book, which provides step-by-step instructions for ACOs, PLCOs and Property Officers, and provides process flowcharts for each major contract closeout function required.

Subsidiary Question 2: To what extent are the Defense Contract Management Command contract closeout policies and procedures practiced at DCMC LM?

As discussed in Chapter V, Sections D and G, DCMC LM uses DCMC Headquarters procedures to a limited extent, and relies on the FAR and DFARS to guide its contract closeout process. DCMC requirements for reporting functions such as metrics and canceling funds must be followed, and provide some value added to the DCMC LM closeout process. The significant process changes initiated since 1995 are the result of the PROCAS processes developed by DCMC Headquarters.

Subsidiary Question 3: What are the metrics that DCMC uses to monitor contract closeout performance, and what do those metrics suggest about the contract closeout process?

The metrics used by DCMC to measure its contract closeout process were described in Chapter IV, Section G. The three main metrics reported are Open Overhead Negotiations, Percent of Overage Contracts and Funds at Risk of Canceling. DCMC has

improved its closeout process recently, especially in its management of canceling funds. However, the current metrics used do not accurately represent the actual progress made in the contract closeout process. DCMC should reassess its measurement of overage contracts and canceling funds to provide a more realistic representation of progress made in the contract closeout process.

Subsidiary Question 4: What are the contract closeout metrics used at DCMC LM and how do they compare to the metrics at DCMC?

The metrics used at DCMC LM were discussed in Chapter V, Section F. DCMC LM is required by DCMC Headquarters to report the results of several contract closeout metrics. The results of those metrics show slight improvement in DCMC LM's closeout process. DCMC LM compares favorably with DCMC-wide metrics for open overhead negotiations and canceling funds, but worse than average for percent of overage contracts. However, the metrics currently used do not accurately represent the progress DCMC LM has made. The alternative metrics recommended by DCMC LM provide a more accurate measure of its significant process improvements made since 1995.

Subsidiary Question 5: What are the major factors within the overall DCMC organization that contribute to late contract closeout?

The factors contributing to late closeout in DCMC were analyzed in Chapter IV, Section F. The main factors for overage contracts are late contractor final invoices and open overhead negotiations. These two factors alone account for almost 55 percent of all overage contracts in the organization. DCMC will continue to struggle with overage

contracts until a system penalizing contractors for submission of late final overhead proposals or final invoices is initiated.

Subsidiary Question 6: What are the major factors in DCMC LM that contribute to late contract closeout, and how do they compare to organization-wide factors?

The factors contributing to late closeout at DCMC LM were described in Chapter V, Section E. The overriding factor for late closeout at DCMC LM is open subcontracts, which contributes to more than 50 percent of all overage prime contracts. Open subcontracts only account for about 2.5 percent of late contract closeout DCMC-wide. While late final invoices represent the most significant barrier to the contract closeout process within DCMC, they represent only about 10 percent of the overage contracts at DCMC LM. The main process driver for overage contracts at DCMC LM is the pending environmental lawsuit against LMMS. Until the lawsuit is settled, the overage percentage will continue to increase with the addition of contracts currently nearing the FAR limits for closure.

Subsidiary Question 7: What specific actions and initiatives are being implemented in DCMC to improve the contract closeout process, and to what extent might these improve the process at DCMC LM?

The current initiatives being developed by DCMC were discussed in Chapter IV, Section H. These initiatives include the Paperless Contract Closeout initiative, the DCMC Overhead Center, and the Latest Rates Available / Trend Analysis initiative, which is designed to supplement the Quick Closeout Procedures allowed by the FAR.

These initiatives currently have little impact on the contract closeout process at DCMC LM. The unique aspects of DCMC LM's closeout requirements do not allow significant use of the DCMC Headquarters initiatives.

Subsidiary Question 8: What specific contract closeout actions and initiatives are being used at DCMC LM, and what other actions could help them improve the contract closeout process?

The initiatives being implemented at DCMC LM were discussed in Chapter V, Section G. These initiatives include alternative contract closeout metrics and initiation of two PROCAS Contract Closeout Teams. These initiatives have enabled DCMC LM to improve its contract closeout process significantly in the last three years. Continued use of PROCAS teams, and more involvement in Early CAS to manage impediments to closeout in the pre-award process, should enable DCMC LM to continue its process improvement.

Primary Question: **What are the major factors that led to late contract closeout at DCMC Lockheed Martin Missiles and Space, what are the impacts of those late closeouts, and what are some of the possible solutions to improve the contract closeout process?**

The primary factors causing late contract closeout at DCMC LM are open subcontracts and open overhead negotiations. Those two factors account for about three-fourths of the current overage backlog. The environmental lawsuit pending against LMMS will cause even more contracts to close late due to delayed flowdown of corporate overheads. DCMC LM's PROCAS initiatives have enabled it to reduce most of its

remaining impediments to contract closeout. To reduce its overage backlog in the future, DCMC DCMC LM should become more involved in Early CAS to raise contract closeout issues before contracts are awarded. While that involvement will not decrease the current backlog of overage contracts, the benefits of such involvement will be seen over the next several years.

E. SUGGESTIONS FOR FURTHER RESEARCH

More attention is being placed on contract closeout than ever before, as DCMC, buying organizations and contractors realize that savings resulting from closer management could be significant. Specific areas that merit further research include:

- Using PROCAS teams to manage the contract closeout process. Contract closeout requires a significant amount of interaction between DCMC, DCAA, and the contractor. Development and use of these teams could significantly impact the contract closeout process currently used by DCMC. PROCAS team performance measurement and applicability in all DCMC organizations could be analyzed to determine if the DCMC LM initiatives could be emulated at other contract administration organizations.

- The use of outside independent auditors to certify contractor overhead rates. The overhead audits currently performed by DCAA could be analyzed to determine their applicability to outsourcing or privatization. Hundreds of commercial accounting firms currently perform similar functions in the commercial industry.

- Use of pre-award agreements and Alternative Dispute Resolution for final indirect cost rates and interim or disallowed costs. Open overhead negotiations and final invoices are currently the most significant roadblocks to the contract closeout process in

DCMC. An analysis can be made of the possible impact of pre-award agreements on the contract closeout process, and use of ADR initiatives to provide settlement of contracts when the Government and contractor cannot come to agreement.

APPENDIX A. CONTRACT CLOSEOUT CHECKLIST

CONTRACT CLOSEOUT CHECK-LIST *(Continue on reverse for any comments)*	1. CONTRACT NUMBER
3. NAME OF CONTRACTOR	2. CONTRACT MODIFICATION NUMBERS *(If applicable)*

4. DATE OF PHYSICAL COMPLETION *(YYMMDD)*	6. MILESTONES/CALENDAR MONTHS AFTER PHYSICAL COMPLETION *(FAR 4.804-1)*			7. FORECAST COMPLETION DATE *(YYMMDD)*	8. DATE ACTION COMPLETED *(YYMMDD)* *(NA if not applicable)*
5. ACTION ITEMS	Category 2	Category 3	Category 4		
a. DISPOSITION OF CLASSIFIED MATERIAL COMPLETED					
b. FINAL PATENT REPORT SUBMITTED *(Inventions Disclosures)* DD 882					
c. FINAL ROYALTY REPORT SUBMITTED					
d. FINAL PATENT REPORT CLEARED *(Inventions Disclosures)*					
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 DD 1593					
i. PROPERTY CLEARANCE RECEIVED DD 1593					
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 DD 1593					
q. CONTRACT AUDIT COMPLETED					
r. CONTRACTOR'S CLOSING STATEMENT COMPLETED					
s. FINAL VOUCHER SUBMITTED SF 1034					
t. FINAL PAID VOUCHER RECEIVED SF 1034					
u. FINAL REMOVAL OF EXCESS FUNDS RECOMMENDED					
v. ISSUANCE OF CONTRACT COMPLETION STATEMENT *(Or MILSCAP Format Identifier PK9)*	6	36	20		
w. OTHER REQUIREMENTS COMPLETED *(Specify)*					

9. 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 1597, NOV 88 *(EG)* *Previous editions are obsolete.* Designed using PerForm Pro, DASC-RX, OCT 94

APPENDIX B. CONTRACT COMPLETION STATEMENT

CONTRACT COMPLETION STATEMENT

1. FROM: *(Contract Administration Office)*	2a. PII 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. CONTRACTOR IDENTITY CODE AND ADDRESS 5. EXCESS FUNDS ☐ YES ☐ NO $ _____

6a. IF FINAL PAYMENT HAS BEEN MADE, COMPLETE ITEMS 6b., 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

9b. TYPED NAME OF RESPONSIBLE OFFICIAL	9c. SIGNATURE	9d. DATE

FOR PURCHASING OFFICE USE ONLY

10a. ALL PURCHASING OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED. CONTRACT FILE OF THIS OFFICE IS HEREBY CLOSED AS OF:

☐ DATE SHOWN IN ITEM 9d. ABOVE.

☐ DATE SHOWN IN ITEM 10e. BELOW. *(Check this box only if final completion of any significant purchasing office action extends more than three months beyond close-out date shown in item 9d. 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 extend its contract file close-out date accordingly.))*

10b. REMARKS

10c. TYPED NAME OF RESPONSIBLE OFFICIAL	10d. SIGNATURE	10e. DATE

DD FORM 1594, FEB 70 (EG) Replaces edition of 1 JUN 68 which is obsolete. Designed using PerForm Pro, DASC-VC, AUG 94

APPENDIX C. DCMC METRICS FOR CONTRACT CLOSEOUT

1. Contract Termination.

a. Terminations Contracting Officer (TCO) Negotiated Settlements Savings. Measures the dollar amount saved as a result of the Terminations Contracting Officer settlement negotiations completed during the reporting period.

b. Termination for Convenience Cycle Time. Computes the average number of days required by the contract administration office to close termination for convenience files during the period.

2. Contract Closeout.

a. Contract Closeout Cycle Time. Tracks the average number of days required by the contract administration offices to close out contracts during the time period. Contracts still open, regardless of whether they are within applicable time limits or late, are not included in this metric.

b. Funds at Risk of Canceling. Measures the unliquidated obligation dollar amount of Accounting Classification Reference Numbers (ACRNs) with funds due to cancel at the end of the current fiscal year.

c. Percent Overage. Measures the percentage of contracts which are physically complete but have not closed within the time standards set by the FAR. Percent Overage is computed by dividing the quantity of contracts in the population that are overage by the total quantity of contracts in the population, and multiplying the answer by 100 to determine the percentage.

3. Plant Clearance.

a. Percent of Excess Property Reutilized and Sales Proceeds. Used to gauge the percent of available property reutilized plus proceeds donated to state and local governments during the period.

b. Government Property Reutilization. Tracks the acquisition cost of all Government property reutilized as the result of plant clearance actions through redistribution to the military services and other Government agencies.

4. Final Overhead Negotiation.

a. Open Overhead Negotiations. Measures the number of open overhead years at the end of the reporting period. The data for this metric are obtained by summing the total years of unsettled indirect costs on open contracts.

b. Final Overhead Negotiation Savings. Tracks the amount saved as a result of negotiation in the settlement of final overhead rates. It is calculated by comparing the difference between negotiated rates and proposed rates during the period.

5. Legal.

Litigation Cost Savings and Avoidances. Measures the dollar amount saved or returned to the Government as a result of court or administrative judgments or negotiated settlements of legal proceedings arising out of a DCMC action.

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