Contract Closeout Update

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Overview

- Contract Life Cycle
- Common Barriers
- Status of Incurred Cost Audits
- Universe for Closeout
- Agency Material Weakness
- Financial Impacts
- Closeout Initiatives
Contract Lifecycle: Procure to Pay Overview
Contract Lifecycle: Pre-Award

Buying Command
- Requirement
- Solicitation
- Source Selection
- Funding
- Award

ACO
- Document Relevant Information in CBAR
- Provides acquisition insight on business intelligence

DFAS
- Set up LOA & Financial Record

DCAA
- Forward Pricing Proposals and Rates
- Pre-Award Accounting System
- Analyze/Audit submission and Negotiation
Contract Lifecycle: During Performance

Buying Command

- Adjust Funding & Monitoring
- Monitor Funding
- Pay Vouchers
- Maintain Gov. Financial Record

ACO

- Monitor Funding Accept Deliveries
- Billing Rates
- Accounting/Billing System Audit – Process Withholds
- Annual Audit of Incurred Cost
- Truth in Negotiation Act Audits

DFAS

- Process Vouchers/Perform Payment Reviews
- Process Contract Modifications

DCAA
Contract Lifecycle: Closeout

Buying Command

- Process Contract Modifications
- Reconcile Quantity – before accepting final voucher
- Reconcile and Close Out Contract
- Resolve remaining funds
- Pay Final Voucher
- Reconcile and Close Accounting File

ACO

- Accept Final Delivery
- Confirm all Audits are Complete and documentation is submitted
- Consider Quick Close Out Process
- Contractor Provide Final CACWS or Evaluation of Final Voucher
- Sign & Process Final Voucher

DFAS

- Preliminary ULO Review, reconcile payment differences

DCAA

- Audit of Incurred Cost
- Support Quick Close Out Procedures

Support Quick Close Out Procedures
Tools For Closeout w/ Focus on Flexible Priced Contracts

**Standard Closeout Procedures**
- Patents
- Property
- Security
- Final Voucher
- DFAS Final Payment
- Notice of Final Action

**Administrative Unilateral Closeout Procedures**
- Ktr No Longer in Business
- Ktr Failed to Submit Indirect Cost Data
- Ktr Failed to Submit Final Invoice/Voucher
- Ktr has Lost Records/Files but Govt. Records intact

**NDAA Class Deviation**
Contract entered into at least 17 FYs before current FY and no further supplies or services due

AND
- Contract or related payment records lost/destroyed

OR
- Contract or related payments available, time or effort to reconcile is not cost effective to amount owed to Govt or Ktr.

**DCMA Overage**
54K
as of 15 Apr 19
Contract Closeout: Multiple Stakeholders – One Focus

**DCMA**
- Ensure contract is physically completed
- Rate Negotiation
- Funds Management
- Completion of All Closeout Actions

**DFAS**
- Part B Contracts < 500K
- Part C Contracts (payment Only, non DCMA Administered)
- Reconciliation
- Final Payment

**Services**
- Additional Funding
- Property Disposition
- Replacement Funds
- Product Acceptance

**DCAA**
- Final Overhead Rates
- Indirect/Direct Cost Audit
- Coordinate Contractor Completion of Cumulative Allowable Costs Worksheet (CACW)

**Industry**
- Indirect Cost Rate – Property
- Year End Rate Adjustments
- Final Invoice/ Voucher
- Settle Subcontracts
Common Barriers and Recommendations

Barriers to Closeout
- Contractor Submission Delays
- Delayed Negotiation of Overhead Rates
- Final OH Rates
- Direct Cost Audits
- Complex Contracts
- Cancelled Funds
- Reconciliation Issues

Recommendations to Mitigate
- Submission of Cumulative Allowable Cost Worksheet (CACWS)
- Timely Submission of Final Voucher
- Monitor Contract Lifecycle and Funds Due to Cancel
- Limit Contract Financing Rates
- Minimize ELIN counts
DCAA Incurred Cost Years Completed

![Graph showing years completed and dollars examined.](image-url)
DCAA Snapshot of Incurred Cost Inventory

![Chart showing the snapshot of incurred cost inventory over fiscal years (FY) 2011 to 2018. The chart includes data points for baseline (FY 2011), FY 2012, FY 2013, FY 2014, FY 2015, FY 2016, FY 2017, and FY 2018. The categories are Regular Inventory, Backlog, and Total Universe. The data points for each category are marked with corresponding values for each fiscal year.]
Material Weakness (MW) :
- 20% reduction of overage cost contracts
- 20% reduction of obligated value of overage cost contracts
- Defined burn down plan for firm fixed price (FFP) contracts

Began FY 16: 43,075 contracts closed by end of FY 18

End of FY 18: 10,520 contracts closed (Goal: 7,255)
- $29.5 B in obligated dollar value (Goal: $23.6 B)
- Reduced overage FFP contracts to 269 (Goal 350)
- Have closed 27,506 contracts and $74.2 B obligated since introduction of MW

FY 19 Goals:
- Close 9,707 contracts
- Close $36 B in obligated dollar value
- Keep overage FFP contracts under 350

2\textsuperscript{nd} QTR 19: On track
Contract Closeout

• **What we’ve done.....**
  - Issued Low Risk Quick Closeout Memo which allows for acceptance of rates up to $750K
  - In conjunction with DFAS, AIA and Section 809 panel, recommended to Congress extension of cancelling funds period from 5 to 8 years (reduced workload = savings)
  - Prioritization of audits to DCAA

• **What we’re working on.....**
  - Working with DFAS and DAR Council to implement Forgive/Forget up to $1,000
  - Standing up Closeout teams which solely focus on contracts with uncancelled funds
  - Comprehensive Training Program to support field development
Contract Closeout

• Contract closeout impact on audit readiness and sustainability
  • Affects dormant funds
  • Reduces contingent liability

• Other benefits
  • Reduces liability to use current year funds
  • Frees expired funds for use elsewhere
  • Reduces actions to address canceling funds
Financial Impacts

FY19 Contract Pay (FYTD Q2)
- 373,368 Active Contracts
- 18,990 Active Contractors
- $2.31 Trillion Obligations
- 368,158 Invoices Processed
- $90.7 Billion Disbursed

MOCAS FY18 Cancelled
Unliquidated Obligations

Army
$341M

Air Force
$363M

Navy
$326M

Marine Corps
$68M

DLA and Defense Agencies
$80M
### Appropriation Life Cycle

#### Appropriation Types

<table>
<thead>
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<th>Appropriation Types</th>
<th>Available</th>
<th>Expired</th>
<th>Cancellation Date</th>
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<td>O &amp; M</td>
<td>1 Year</td>
<td>+ 5 Years</td>
<td>September 30th of the 6th year</td>
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<tr>
<td>R &amp; D</td>
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<tr>
<td>MILCON</td>
<td>5 Year</td>
<td>+ 5 Years</td>
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#### Current/Available
- Available for Obligation and Payment

#### Expired
- Available for Payment

#### Cancelled
- Must Obtain New Funding
Tri-Agency Strategic Focus

Collaborative Effort Targeting FY19 & FY20 Cancelling Funds

**Goal:** Strategically align priorities for contract closeout actions

**Focus:** Target cancelling ULO balances in MOCAS

**Results:** Reduced FY18 cancelling ULO balance by $84M on 25,805 ACRNS

**Future:** Follow the same process for future years’ cancelling ULO balances
Department-Wide Initiatives

- Contracts Issued 17 years prior to current FY
- No Further Deliverables
- Unreconcilable

Legislative Relief

DPC Initiatives

- Cancelling Funds WG
- Contract Closeout Initiatives
  - EDA Refresh
  - Closeout Guidebook
  - Quick Closeout
Open Discussion

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