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ACQUISITION Research

Case Series

CONTRACT CLOSEOUT (A)

30 September 2003

by

Dr. David V. Lamm

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Acquisition Research
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CONTRACT CLOSEOUT (A)

Setting

It was the 10th of January 2004 and Jim Ross was contemplating how he was going to resolve a very tough issue. He had been working this problem for some time now but it just wasn't improving. Jim is an Administrative Contracting Officer (ACO) in the Defense Contract Management Agency (DCMA) located in Sunnyvale, California. His problem is a growing backlog of contracts for which contractors had finished performance and were ready to be closed. The closeout process officially starts when a contract has been physically completed (i.e., all goods or supplies have been delivered and accepted or all services have been performed). There are timeframes within which the Federal Government requires such contracts to be closed which vary with contract type. **Exhibit 1** contains the Federally mandated timeframes.

All of the ACOs at DCMA Sunnyvale have been keeping close track of the active contracts for which they have been assigned administration responsibilities. These are contracts under which contractors are engaged in producing goods or delivering services on a regular basis. Some of these contracts are “routine” and require very little attention from the ACO and the contract administration team. Others might be experiencing quality problems or financing issues and require careful monitoring by the Government. Active contracts are far more visible on their "screen" because they usually demand immediate and continuous attention. Frequently, an urgent action is required in order to ensure an item will be delivered on time or to minimize a delay that has already begun, a situation that was occurring far more often than Jim and the others would like to see.

Once a contract migrates to the closeout backlog, however, it generally does not receive the same attention as active contracts. It moves to a holding status pending completion of several actions, all designed to ensure the

Government is not put at risk. Some of these actions can be accomplished quickly and without much effort. Others require researching the files and requesting information, and even decisions, from others.

Jim and his colleagues were also receiving requests to assist buying offices in accomplishing buying actions such as a pre-award survey or a proposal analysis. Because these efforts were in direct support of contract award, timeliness was always the key. Performance information, management assessment, production capability and pricing data were critical to a successful source selection and award. These requests came from buying offices that always seemed to need the results yesterday. Such demands made it pretty difficult for Jim and his fellow ACOs to do any more than work the contract closeout backlog "on the fly."

Situation

As an ACO, Jim and his team were responsible for a total of 853 contracts that had been awarded by **53** different buying organizations throughout the Department of Defense (DOD), as well as a couple from the Department of Energy (DOE) and the National Aeronautics and Space Administration (NASA). Contracts awarded by DOE and NASA were administered by DCMA on fee-for-service basis. All of these contracts had been awarded to 47 different firms located within the region covered by DCMA Sunnyvale. As of 1 January 2004, 287 of these contracts were very active and required constant effort from the ACO team on a daily basis. Four hundred and ten contracts had not been completed but did not require the day-to-day involvement of the “very active” contracts required. The remaining 156 contracts had been completed by the contractors involved and were awaiting closeout action. Of this number, 42 had moved to the "overage" category which meant they had exceeded the timeframes established in the FAR during which closeout action was to be accomplished. **Exhibit 2** presents the data regarding the 156 contracts in the

closeout backlog as of 1 January 2004 as well as the status (Reason Code) of the contract.

The total contracts for which Jim was responsible increased at the rate of approximately three per week. Many of these were for services and were often completed within a few months to a year. Technical and engineering services often exceeded one year. Other contracts were for goods and supplies that stretched from several months to a few years. Several contracts were for a relatively small dollar value (under $100,000) while many contracts exceeded $500,000 and some were greater than $1,000,000. Contracts were entering Jim's closeout backlog at an average of approximately 10 contracts per month; however, the rate of contract completion was "seasonal." Certain times of the year would see a much higher completion rate than others, thus Jim would be faced with a "peak and valley" type of workload when it came to contracts awaiting closure. Jim and his team were closing contracts at the rate of approximately 75-80 per year, which required significant resources and were very labor intensive.

Jim was receiving some very heavy pressure from his supervisor to significantly reduce his closeout backlog. Although he was not the only ACO with a sizeable closeout backlog, he did have one of the higher numbers of contracts in the overage category. The size of the contract closeout problem DOD-wide had been increasing and DCMA was being criticized by the Office of the Secretary of Defense (OSD) and the buying offices in the Services for failure to manage this issue. **Exhibit 3** is a representative letter from a major buying command complaining about the process. A couple of Jim's key problems included not enough time to devote to this area and the data needed to measure the system either were inaccurate or didn't exist at all. It was probably only a matter of time before Congress got in the act and placed restrictions on DOD (and perhaps all the Federal Agencies) to encourage immediate action to resolve the problem. Recently, the DCMA Commander had issued a Policy Statement

regarding contract closeout emphasizing the need to continuously exert the necessary energy to ensure timely contract closeout. **Exhibit 4** contains this statement.

Jim felt the system was severely constraining his ability to closeout contracts on a timely basis and had made several suggestions to his management on how to improve the process. Some of his frustration involved contractors who were slow to respond to his communications, if at all, and would often provide incomplete or inaccurate data requiring research and additional communications from his team. For their part, contractors complained that the Defense Contract Audit Agency (DCAA) auditors were digging far too deeply into their accounting records during completion audits and the settlement of final overhead rates was being prolonged by both DCMA and DCAA. The process was also delayed by the lack of attention buying organizations gave to Jim's requests for information or approvals.

Some Metrics

Jim and his team had developed a few of metrics to measure their performance in closing out contracts but he knew these needed refinement. These metrics had changed over time but currently included the following: (1) percentage of contracts in the closeout backlog, (2) percentage of overage contracts to be closed, (3) number of contracts entering into the "to be closed" status and the number closed each month, (4) dollar value of deobligated funds, (5) total dollar value of all open contracts, (6) number of contracts awaiting closeout action outside DCMA, (7) number of times Quick Closeout Process was used, (8) number of unilateral ACO decisions, and (9) number of times Alternative Dispute Resolution (ADR) methods were used. **Exhibit 5A** presents these metrics together with metric goals and the purpose of each metric, including some metrics that had been used in the past but were not currently employed. **Exhibit 5B** presents the Fiscal Year 2003 Quarterly Report for the

nine metrics currently used. The next time he got together with his group, Jim wanted to brainstorm possible metrics that could be added or dropped from this list, but more importantly, to develop a more sophisticated approach to the entire closeout process. He knew the Federal Acquisition Regulation (FAR) had identified 15 steps that had to be accomplished in order to closeout a contract, but felt the process was cumbersome and probably inherently redundant. In some cases, he felt the Government was spending much more in trying to ensure it had paid the correct amount to contractors and could account for every dollar than the amount of the contracts themselves.

Jim pondered the thought that there may be a risk of attempting to close contracts too quickly and thereby create errors. This was brought home forcefully when he stumbled across a January 2003 Department of Defense Inspector General (DODIG) report that severely criticized the Defense Finance and Accounting Service (DFAS) and DCMA for erroneously closing over 10,000 contracts that later had to be reopened. In some cases, overpayments and duplicate payments had been made to contractors subsequently requiring issuance of demand letters to recover the incorrect payments.

A Look at Industry

Jim had been hearing a lot about acquisition reform and transformation objectives in the last few years which included a goal of emulating private industry by embracing commercial best practices and using sound business principles. He thought he might benefit from learning how private firms execute the process of closing contracts although he knew they would be under far fewer constraints than those imposed by the Federal Government system. Nonetheless, he might pick up a few "nuggets" that would enhance his efforts to make improvements. Jim decided to informally discuss this issue with a few firms that had no involvement with Federal Government contracts. **Exhibit 6**

presents the information that he obtained during his phone calls to six companies in the Silicon Valley area.

Jim had also listened over the years to complaints about the process from the 47 companies for which he had contract administration responsibilities. Although they admitted they were part of the problem in the delays encountered, they refused to accept total responsibility for all the problems that had surfaced and felt the Government was the barrier in most instances. **Exhibit 7** contains some of the comments Jim had heard from his contractors. He believed that the solution to improving contract closeout rested partially in the views and observations they had expressed.

Jim was particularly perplexed by a recent letter from one of his small business contractors who was most critical of the way his office handled closeouts. The items mentioned in the letter had been conveyed verbally to Jim, from time-to-time, by other contractors over the last few months. He was contemplating whether he should send a written response, phone the company, or even make a personal visit to the company vice president to discuss the issues. **Exhibit 8** presents this letter.

Further Research

Jim wanted to delve deeper into this issue and obtained his bosses' approval to spend time researching the problem. Jim wanted to know what studies or reports had been completed on the contract closeout process and decided to review a couple of the key sources that he had used in the past. He decided to start with anything the General Accounting Office (GAO) might have on the subject. He also believed that DODIG reports might have covered the issue at various times. He definitely wanted anything OSD had published and perhaps other Federal Agencies had done the same. Perhaps the Defense Science Board (DSB) and the Procurement Roundtable (PRT) had researched this area as well as any professional or industry associations dealing in Federal,

State and local government contracting. He also knew that the FAR Council had issued a proposed rule change in the Federal Register in September 2002 and was keenly interested in obtaining the comments they had received from various Federal Government agencies. **Exhibit 9** lists some of the reports and studies he found.

Stakeholders

Jim felt that one of the keys to enhancing the process was to engage all of the stakeholders involved in the entire closeout process. He felt he knew the key players that should be included in the obvious group: (1) the buying offices, (2) the contractors, (3) his organization (DCMA), (4) DCAA, and (5) DFAS. He was not sure who else should be included as a stakeholder but figured that there might be other interested parties that ought to be considered. Certainly OSD and the Office of Federal Procurement Policy (OFPP) were candidates for the list. He decided to perform a Stakeholder Analysis using the tools he had recently picked up in graduate school. **Exhibit 10** contains the worksheet Jim intended to use in his analysis.

Issues

Jim was trying to sort out the major issues involved in the contract closeout process. Using his own experience and input from colleagues within his organization, he started to identify the key problems he would have to address not only to reduce the backlog, but also to improve ("transform" seemed to be the word he was hearing lately) the process. Without prioritizing the issues, Jim brainstormed with some of his fellow ACOs (and their contract administrators) as well as a couple of DCAA auditors with whom he had worked over the years.

One of the distinctions Jim felt was key to an analysis of the growing backlog of contracts physically complete and awaiting closure was the categorization of contracts that were overage versus those that had not yet

achieved that status. His own experience indicated that approximately 20-25% of the total contracts awaiting closure were overage. His gut feeling was that once a contract moved to the overage status, it became increasingly difficult to accomplish the actions necessary to close the contract. The contract had become overage because there were one or more serious problems to address and these problems just became more difficult to resolve as time went by.

Best Practices

From his research, Jim knew many different groups had studied the contract closeout process at great length over the past several years. Process Action Teams (PATs), Integrated Product Teams (IPTs), study teams and graduate student theses had all criticized the process from one perspective or another and all had made some fairly important recommendations for improvement. Most of these studies had canvassed only Government personnel but a couple of the studies had included industry folks as well. Jim decided to synopsize the solutions he felt had the greatest potential and which he wanted to pursue in greater detail. Jim's initial list of solutions is presented in **Exhibit 11**. From this list, he felt a series of best practices for contract closeout could be developed.

Action Plan

Jim decided he now needed to develop a strategic plan of action to attack the difficult process of closing out contracts. He felt his best approach would be to start with his own contract administration team to establish the basic elements of the plan. He also believed he needed input from the contractors for which he had contract administration responsibility and the buying offices he supported. From there, he would develop a draft plan of action for approval by his supervisors. He also reasoned that his fellow ACOs needed to provide input to the plan in order to gain acceptance within the Command. **Exhibit 12** contains the materials Jim plans to use to develop a strategic plan.

Case Questions/Exercises

1. Analyze the contract data in Exhibit 2. What trends can be identified?
2. Identify the 42 overaged contracts in Exhibit 2. What trends can be identified in this group of contracts?
3. Write a response to the buying organization in Exhibit 3.
4. Discuss your assessment of the DCMA Policy Statement in Exhibit 4.
5. What additional metrics could be used besides those set forth in Exhibit 5A? Which metrics do not seem to make any sense and should not be used?
6. Outline a response Jim should send to the complaining contractor whose letter is presented in Exhibit 8?
7. Complete the Stakeholder Analysis in Exhibit 10. What other organizations or individuals should Jim include in his stakeholder analysis?
8. What actions or solutions could be added to the list in Exhibit 11?
9. Develop a Strategic Plan using Exhibit 12 materials.
10. What part of the process could be measured in order to develop input for source selection past performance?
11. What part of the contract closeout process could be contracted out? What actions in the process are probably "inherently Governmental functions" and cannot be contracted out?
12. Write a Statement of Work (SOW) and an Award Fee Plan (AFP) for a Fixed-Price-Award-Fee (FPAF) contract to be awarded to a contractor who will be required to perform contract closeout actions for all contractors under DCMA Sunnyvale cognizance.
13. Under what circumstances should an ACO consider accepting a contractor's proposed indirect rate for closeout purposes?
14. What incentives could Jim Ross employ to encourage contractors to participate completely in closing contracts?
15. What industry contract closeout practices could Jim Ross adopt in his efforts?
16. Are there any potential situations where Jim Ross could use "quick closeout" procedures?

EXHIBIT 1

CONTRACT CLOSEOUT TIMEFRAMES

Time standards for closing out contract files are as follows:

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

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

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

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

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

A contract file shall not be closed if --

(1) The contract is in litigation or under appeal; or

(2) In the case of a termination, all termination actions have not been completed.

TIME STANDARDS

Contract Type	Time Period to Close
Contracts using Simplified Acquisition Procedures	Evidence of receipt of property and final payment
All other Firm-Fixed-Price (FFP) contracts	Six months
Cost-Reimbursement Contracts	Thirty-six months
All Other Contract Types	Twenty Months

EXHIBIT 2A

CONTRACTS AWAITING CLOSEOUT ACTION

PIIN*	CONTRACTOR	CONTRACT $	UNLIQ $	REAS	KIND	TYPE	FDD**
N0009077C3072	Allied Marine Corp	581,000	0	M	1	W	3/31/83
N0009086C5288	Allied Marine Corp	596,420	11,706	M	1	W	4/30/89
N0009092C6859	Allied Marine Corp	487,520	199	M	1	V	5/31/95
DAVA5387GS0112001	Anderson Research	131,665	282	M	2	U	8/31/90
DAVA5398C0278	Anderson Research	112,591	2,550	A	2	U	3/31/02
DAVA5398D11700006	Anderson Research	78,988	892	P	2	U	1/31/01
F3764499D00012083	ARD Microwave	126,658	11,035	M	1	W	7/31/03
F3764499D00012153	ARD Microwave	631,764	4,767	M	1	W	11/30/03
F3764400C5193	ARD Microwave	209,411	53,823	A	1	L	11/30/01
F3764290G0035EF01	ARD Microwave	134,336	0	M	1	W	6/30/03
F3764495G00013A02	ARD Microwave	82,041	114	M	1	L	3/31/03
F3764297C0149	ARD Microwave	120,187	1,701	M	1	W	10/31/03
F3764498C0017	ARD Microwave	199,990	14,136	M	1	W	6/30/03
M3860097F1025	BG Industries	29,637,826	233,438	N	7	J	4/30/89
N5843294C4166	BTM Electromatic Corp	79,464	0	A	2	U	9/30/99
N5843296C3853	BTM Electromatic Corp	24,828,077	10,099	A	2	U	11/30/00
N5843200C5507	BTM Electromatic Corp	272,670	10,010	H	2	V	8/31/03
N5843201C6184	BTM Electromatic Corp	51,040	2,870	M	2	V	5/31/02
N5843297D14210005	BTM Electromatic Corp	95,645	0	M	5	Y	3/31/01
N5843202C2814	BTM Electromatic Corp	69,814	4,787	A	2	R	2/28/03
N5805188C4120	C&E Electronics	482,125	207,632	A	1	J	2/28/92
N5805192C5248	C&E Electronics	991,283	56,923	A	1	J	9/30/97
N5805193C3132	C&E Electronics	989,958	60,465	A	2	U	2/28/99
N5808396C0129	C&E Electronics	444,369	46,382	M	1	J	6/30/03
N5808398C1648	C&E Electronics	665,458	3,755	P	1	M	1/31/03
N5808399C5202	C&E Electronics	29,940	454	M	1	M	5/31/02
N5808301C2765	C&E Electronics	296,971	554	M	1	J	7/31/03
DAFA0498C6079	California Instruments	2,214,018	135,872	M	1	U	8/31/03
DAFA0499C4203	California Instruments	2,446,486	25,127	M	1	U	10/31/03
DAFA2895C4459	California Instruments	3,345,222	67,860	M	1	M	3/31/94
DAGA4799C7041	California Instruments	2,625,850	23,861	B	1	R	10/31/03
DALA6297C2276	California Instruments	8,344,113	97,900	M	1	U	6/30/03
DARA3996C3859	California Instruments	597,151	18,446	M	1	U	11/30/98
F0123696C1671	Colyer National Corp	241,200	12,957	Y	6	J	7/31/03
N0010898C5888	Corcoran International	108,516	39	A	3	R	3/31/01
N0010802C6043	Corcoran International	38,783	9,699	A	3	U	4/30/03
M0002499D6015003	CSG Corp	144,499	6,512	W	6	U	6/30/02
DAWA0900D15520068	CSG Corp	5,071,347	44,344	M	6	U	4/30/03
F4376101D90015K24	CSG Corp	4,507,098	24,545	M	6	R	5/31/03
M7307499D00630035	CSG Corp	3,845	1,233	M	6	U	2/28/03
N4104392D00400011	CSG Corp	974,875	35,015	A	6	U	3/31/98
N7186396D8393007	CSG Corp	356,193	91,144	M	6	R	5/31/01
N8962295D18340044	CSG Corp	277,652	3,898	M	6	R	1/31/01
M0000101D60250041	CSG Corp	245,972	25,004	M	6	U	7/31/03
M0002496D21390003	CSG Corp	13,683	0	M	6	U	8/31/03
M7307496D03320078	CSG Corp	2,255,248	46,284	M	6	W	10/31/03
M9721991D1024007	CSG Corp	11,995	40	M	6	U	10/31/03
F3541898D00290024	CSG Corp	5,672	381	A	6	R	4/30/03
F4376100D84320008	CSG Corp	14,535	148	H	6	U	11/30/01
F6708995D18340042	CSG Corp	20,516	238	M	6	U	7/31/03
SP250796D31080024	CSG Corp	18,254	8,801	M	6	W	9/31/03
SP639597D01820015	CSG Corp	19,499	0	M	6	R	4/30/99
SP880399D2674	CSG Corp	16,624	303	M	6	R	6/30/01
SP250799C7078	Darby Corp	1,356,411	48,350	G	1	J	11/30/03
M4375702F3008	Demir Associates	64,902,142	539,014	Y	7	J	7/31/03
F0600891C4179	Dewell Research Labs	2,083,716	37,525	H	2	U	2/28/95
F0600896C6171	Dewell Research Labs	858,008	17,272	A	2	U	3/31/01
DAVA5302C5694	Ebright Industries	55,660,063	1,735,403	M	3	R	5/31/03
DAVA5302C8512	Ebright Industries	20,991,795	418,203	M	3	R	1/31/03
N7191800C2921	Endres Technology Inc	499,850	15,698	H	2	U	7/31/02

PIIN*	CONTRACTOR	CONTRACT $	UNLIQ $	REAS	KIND	TYPE	FDD*
N7191801C1488	Endres Technology Inc	989,204	6,104	A	2	U	8/31/03
N0009095D0039	Francom Enterprises	61,879	6,552	M	6	R	3/31/99
N0009097C1951	Francom Enterprises	94,955	21	M	6	R	10/31/00
N0009000D0736	Francom Enterprises	63,058	243	M	6	R	6/30/03
N0009002D42280019	Francom Enterprises	99,949	1,007	B	6	J	11/30/03
DAGA4789E3427	H. Byrns Co.	5,300	824	G	7	J	8/31/03
F3764201C4152	HHL Tectronics	208,880	3,989	P	2	R	3/31/03
N8673198D00930041	J. Dunn Group	2,683,392	51,204	M	6	U	4/30/02
N8673199D01740006	J. Dunn Group	1,391,430	207,105	A	6	U	6/30/01
DARA3901C2172	J. Hein Equip Co	67,746	60,306	A	1	J	11/30/03
M4375792C0245	K. Beard Associates	401,440	1,493	V	6	M	5/31/02
M4375792C1350	K. Beard Associates	26,121	0	V	6	M	2/28/03
F1809388C5512	Kane Manufacturing Inc	7,283	80	Q	1	J	3/31/02
F1809390C2997	Kane Manufacturing Inc	24,876	0	V	1	J	10/31/97
F1809399C5666	Kane Manufacturing Inc	39,370	2,722	G	1	J	11/30/03
F1809399C0386	Kane Manufacturing Inc	8,455	139	G	1	J	8/31/03
F1809300C1542	Kane Manufacturing Inc	11,235	1,459	G	1	J	10/30/03
F1809301C3930	Kane Manufacturing Inc	3,073	291	G	1	J	8/31/03
F1809301C6213	Kane Manufacturing Inc	19,993	1,605	G	1	J	7/31/03
DAVA5399C0057	KAO Labs	474,520	139	A	2	U	3/31/01
DAVA5301C4504	KAO Labs	718,000	73	M	2	U	1/31/03
DAVA5302C2230	KAO Labs	586,108	9,086	M	2	U	8/31/03
DAEA0184G6213	Kirtley Electronics	22,404,349	438,280	A	1	J	9/30/91
N5808394D0393	Kirtley Electronics	5,870,077	979,727	A	1	J	10/31/98
F3764297C2806	Kirtley Electronics	92,769,606	906,614	A	1	J	10/31/01
F3764298C6210	Kirtley Electronics	31,398,459	5,000	A	1	J	11/30/00
SP746197F3257	Kirtley Electronics	9,131,343	43,032	A	1	K	1/31/01
DAFA0498D0015MV01	Lawson Corp	660,073	2,623	A	3	L	7/31/02
DAFA0499DA0037P26	Lawson Corp	963,722	23,032	A	3	M	10/31/02
DAFA0499C0017	Lawson Corp	1,916,029	70,109	M	3	M	5/31/03
DAFA0401C8021	Lawson Corp	1,165,700	261,910	M	3	L	3/31/03
DAFA0401D0031NS07	Lawson Corp	3,175,377	702	M	3	L	1/31/03
SP218995C9049	Maryland Manufacturing Co	33,748	4,051	M	1	Z	8/31/99
SP218997C3011	Maryland Manufacturing Co	39,998	33,564	A	1	J	9/30/99
SP218900C3551	Maryland Manufacturing Co	19,995	9,980	A	1	J	10/31/03
SP218901C1108	Maryland Manufacturing Co	21,784	13,225	H	1	J	10/31/03
SP218902C0081	Maryland Manufacturing Co	9,640	54	H	1	J	11/30/03
SP218902C0279	Maryland Manufacturing Co	45,173	0	M	1	Z	7/31/03
DAFA2896D00050023	MTO Inc	2,387,393	36,678	V	5	Y	2/28/00
DAFA2800D00340009	MTO Inc	1,981,551	0	M	5	Y	10/31/01
N0001799DJ0621102	MTO Inc	724,041	1,006	M	5	Y	5/31/03
N0001702D30110006	MTO Inc	5,311,868	86,129	M	5	Y	3/31/03
F3541899D12070008	MTO Inc	962,476	0	M	5	Y	1/31/01
F3569899D90025K80	MTO Inc	286,721	1,623	M	5	Z	8/31/02
F6743301C0089	MTO Inc	432,849	19,780	M	5	Y	9/30/01
F6743302C3063	MTO Inc	7,005,172	39,170	B	5	Y	10/31/03
M3860000C2103	National Research	470,897,134	5,435,082	G	2	U	10/31/02
DALA6295C1061	P. Johnson Inc	1,500	0	N	3	M	11/30/98
DALA6201C0539	P. Johnson Inc	1,541,141	70,190	A	3	M	1/31/03
DALA6202C0362	P. Johnson Inc	18,652	136	H	3	U	2/28/03
N0002699C4014	Pacific Technology Inc	43,639	12,770	R	2	R	10/31/01
N0002601C0113	Pacific Technology Inc	54,470	11,126	R	2	R	5/31/03
N4104399D00850023	Pacific Technology Inc	52,308	12,417	R	2	U	3/31/02
F0156694D0331WN15	PerceptiVU Corp	965,476	129,063	C	2	U	1/31/98
F0156699D0004NW03	PerceptiVU Corp	298,704	0	D	3	U	8/31/01
F0156600D0686EX05	PerceptiVU Corp	53,225	698	A	3	U	9/30/02
F0157294C5018	PerceptiVU Corp	582,139	4,033	A	2	U	10/31/99
F0157298G0014SM02	PerceptiVU Corp	783,415	0	M	3	U	7/31/02
F0157299G0017GC09	PerceptiVU Corp	476,818	422	M	3	U	10/31/03
F0157200G00056830t	PerceptiVU Corp	1,099	635	M	3	U	2/29/01
DAWA7698D80550004	QRS Company	57,200	118	Y	5	J	5/31/02
DAWA7698D80560005	QRS Company	20,000	2,580	V	5	J	10/31/00
DAWA7601D80120010	QRS Company	16,318	109	W	5	J	6/30/03
N0010802C5047	QRS Company	27,156	520	F	5	M	4/30/03
F4376100C0189	QRS Company	16,816	3,450	J	5	U	4/30/03

PIIN*	CONTRACTOR	CONTRACT $	UNLIQ $	REAS	KIND	TYPE	FDD**
F6708997D81180012	QRS Company	16,570	211	A	5	U	3/31/02
F6708999D10030010	QRS Company	1,832	17	H	5	U	4/30/03
F6758199D10030011	QRS Company	29,229	629	M	5	U	7/31/03
M0000100C3041	QRS Company	22,482	1,164	F	5	M	10/31/02
M0002494D60020018	QRS Company	31,819	5,452	F	5	M	2/29/97
N7191899D0040MV07	Radco Associates	108,949	2,766	T	8	R	5/31/01
N7191899D0040MV09	Radco Associates	240,997	2,303	T	8	R	10/31/01
N7191899D0041V7AS	Radco Associates	187,662	9,312	S	8	R	6/30/01
N7191899D0041V741	Radco Associates	41,300	1,529	S	8	R	4/30/02
N5805195G0901	Ryan Electronics	140,800	0	A	3	U	4/30/98
N5805197C0108	Ryan Electronics	470,867	2,998	Z	2	U	3/31/00
F3764298D00010003	Ryan Electronics	399,563	8,193	F	2	A	4/30/00
F3764201C4153	Ryan Electronics	434,201	91,837	J	2	U	7/31/03
F3764201C4181	Ryan Electronics	376,319	20,907	J	2	U	10/31/03
F3764201C4459	Ryan Electronics	47,453	501	J	3	R	2/29/03
M9351800C2070	Ryan Electronics	48,416	20,559	A	2	U	5/31/02
SP746184C0196	Ryan Electronics	52,863	3,060	A	2	W	10/31/87
SP746100C2139	Ryan Electronics	37,349	11,150	M	2	W	6/30/02
SP746100C2588	Ryan Electronics	42,979	34,950	M	2	W	4/30/03
N0010801C5202	SAE Systems Inc	44,892	0	D	3	U	4/30/02
N0010802D0877	SAE Systems Inc	94,124	1,141	D	3	R	3/31/03
SP880396G2N5359	Sterrett Corp	466,874	6,029	S	6	K	4/30/98
F0123697CB018	Tucker Allied Systems	399,789	67,899		5	R	7/31/99
F0123600CB0005	Tucker Allied Systems	194,107	2,615		5	Y	10/31/01
F0123602CM019	Tucker Allied Systems	117,493	1,701		5	R	2/29/03
N8962202D001B7013	Y.J. Hectern Co	200,000	8,846	Y	7	J	7/31/03
SP218996D30900020	Younker Valve Co	195,641	83,677	U	1	J	10/31/98
SP218998D70200078	Younker Valve Co	649,902	140,822	A	1	J	6/30/03
SP218900G40500001	Younker Valve Co	571,504	62,096	M	1	V	11/30/03
SP218900G40500018	Younker Valve Co	149,210	4,005	M	1	V	9/30/03
SP218901D15520028	Younker Valve Co	365,426	192	M	1	V	7/31/03
SP218902G5154	Younker Valve Co	65,426	15,802	M	1	V	8/31/03

***PIIN**=Procurement Instrument Identification Number (See DFARS Subpart 204.70)

****FDD**=Final Delivery Date (for purposes of this case, the FDD is also considered to be the date the contract was physically completed)

EXHIBIT 2B

REASON (REAS) CODES

Reason Code	MOCAS/MILSCAP Description	Clarifications	OPR
A	Contractor has not submitted final invoice/voucher	Contractor has not submitted a final bill for payment. For cost contracts, final indirect rates have been established.	Contractor
B	Final acceptance not received	Awaiting destination acceptance from the Buying or Receiving Activity.	Services
C	Contractor has not submitted patent/royalty report	For Patents, DD Form 882, or equivalent has not been received from the contractorper applicable FAR clauses.	Contractor
D	Patent/royalty clearance required	Contractor has not submitted the final DD Form 882, or equivalent. The form has been forwarded to the Buying Activity for approval.	Services
E	Contractor has not submitted proposal for final price redetermination	Use this code until th contracting officer receives an adequate final price redetermination proposal.	Contractor
F	Supplemental agreement covering final price redetermination required	Use this code while the fina price redermination proposal is being reviewed or negotiated. An OPR code is required to signify which party's actions are currently open.	Services Contractor DCMA
G	Settlement of subcontractors pending	Pending settlement of subcontract(s); may impact final voucher submission.	Contractor
H	Final audit in process	DCAA performing final Contract Audit Closing Statement on final voucher or DCMA using Cumulative Allowable Cost Worksheet (CACWS) and/or risk based approach for auditing final voucher.	DCMA DCAA
J	Disallowed cost pending	ACO in process of resolving DCAA Form 1 issue or similar disallowed cost issue.	DCMA
K	Final audit of Government property pending	**DO NOT USE:** Use Reason Code "V" for Property issues.	N/A
L	Independent research & development rates pending	**DO NOT USE:** The Reason Code is obsolete for contracts after October 1992. Use Reason Code "M" for rates.	N/A
M	Negotiation of overhead rates pending	Identification of OPR combined with "M" code will provide visibility of the current O/H action (e.g. awaiting KTR proposal, audit or negoation.)	Contractor DCMA DCAA
N	Additional funds are requested but not yet received	The PCO has been requested to provide additional funds for various reasons (e.g. cost overruns). Wen contract is awaiting replacement funds for canceled appropriations, use Reason Code "1".	Services
P	Reconciliation with paying office and contractor being accomplished	Provide visibility as to the basis for the reconciliation delay (e.g. disbursement audit in process (DFAS), obligation audit in process (DCMA), or awating payment history and/or information (Contractor).)	Contractor DCMA DFAS
Q	Armed Services Board of Contract Appeals case	Contract should be moved to Section 3 once the ASBCA docket number is assigned. The docket number should be entered in the R3 Remarks.	DCMA
R	Public Law 85-804 case	50 USC [Chapter 29] 1431 - P.L. 85-804 applies to Extraordinary Contractual Actions.	DCMA
S	Litigation/investigation pending	Either fraud investigation activity is in process, or contractual issue is not resolved or claim has been received by contracting officer. Contract should be moved to Section 3 (BCA/CIL/CLL) once contracts is in Federal Courts and/or DOJ opens a case.	DCMA
T	Termination in process	Use for Terminations. Move Termination for Convenience to Section 3. Termination for Default stay in Section 2.	DCMA
U	Warranty clause action pending	Open warranty action(s) currently being processed IAW FAR 46.709 and -10.	DCMA
V	Disposition of Government property pending	Identification of OPR combined with "V" will provide visibility into delay (e.g. awaiting PCO disposition instructions (Services), or contractor submittal of inventory schedules (KTR)	Services Contractor DCMA

Reason Code	MOCAS/MILSCAP Description	Clarifications	OPR
W	Contract modification pending	Contract modification awaiting contractor signature, PCO issuance of modification or ACO modification actions.	Services Contractor DCMA
X	Contract release and assignment pending	Awaiting contractor's submission of the release and assignment.	Contractor
Y	Awaiting notice of final payment	Proper final invoce/voucher forwarded to DFAS for payment, awaiting payment.	DFAS
Z	Disposition of classified material pending	Awaiting disposition of instructions on classified materials from the Buying Activity. The ACO is responsible for notifying DIS that the contract is complete and classified material should be dispositioned.	Services
1	Canceled funds	Voucher/invoice has been submitted to DFAS for D-MACT action to funding station.	Services
2	Appropriations in Red	**DO NOT USE**	N/A
3	Prevalidation Action Pending	Voucher/invoice at DFAS pending prevalidation process before payment.	DFAS
4	Reserved	Reserved	N/A
5	Reserved	Reserved	N/A
6	Fee withheld	Fee withheld awaiting resolution of issue before fial payment can be made.	DCMA
7	Awaiting removal from Excess Funds	The ACO has deobligation authority.	DCMA
8	Reserved	Reserved	N/A
9	Reserved	Reserved	N/A

EXHIBIT 2C

NATURE OF WORK (KIND) CODES

Code	Explanation
1	Supply Contract and Price Orders
2	Research and Development Contracts
3	System Acquisition Contracts
5	Maintenance Contracts
6	Service Contracts
7	Facilities Contracts
8	Undefinitized Letter Contracts
9	Unpriced Orders Against BOAs
0	Other

EXHIBIT 2D

TYPE OF CONTRACT (TYPE) CODES

Code	Explanation
A	Fixed-Price Redetermination (FPR)
J	Firm Fixed-Price (FFP)
K	Fixed-Price with Economic Price Adjustment (FPE)
L	Fixed-Price Incentive with Performance Incentive (FPIF)
M	Fixed-Price Incentive without Performance Incentive (FPIF)
R	Cost-Plus-Award-Fee (CPAF)
S	Cost Contract (CR)
T	Cost Sharing (CS)
U	Cost-Plus-Fixed-Fee (CPFF)
V	Cost-Plus-Incentive-Fee with Performance Incentive (CPIF)
W	Cost-Plus-Incentive-Fee without Performance Incentive (CPIF)
Y	Time and Materials (T&M)
Z	Labor Hour

EXHIBIT 3

BUYING OFFICE LETTER

Army Regional Contracting Center (ARCC)
1108 Norwalk Lane
Younker, CA 99999

13 November 2003

Commander
DCMA Sunnyvale
304 Hectern Court
Suite 13579
Sunnyvale, CA 99998

Dear Colonel R. L. Kirtley:

It is important that we bring to your attention a critical matter costing the Army and the ARCC thousands of dollars each year. The issue is timely closeout of completed contracts awarded by this Center and the recoupment, through deobligation, of unused funds that can be returned to program managers to address current year funding shortfalls. Although this problem appears widespread throughout the Defense Contract Management Agency, your office has the highest incidence of funds lost for the ARCC.

We have identified four items we believe your command must manage on a more focused basis in order to reduce the backlog of contracts waiting to be closed and avoid the loss of unexpended funds.

1. Contractor failure to submit, on a timely basis, indirect cost rate proposals
2. Delays awaiting final audits which receive low priority
3. Disposition of excess Government property
4. Contract funds reconciliation

From our perspective, each of these areas represents a significant bottleneck in completing contract closeouts. Approximately 85% of the contracts awarded by ARCC and administered by DCMA Sunnyvale have been physically completed and are awaiting closeout. Almost one-half are in an overage status. We believe significant actions by your Agency are necessary to reduce the backlog of unclosed contracts, and thus more importantly, ensure the return of urgently needed funds.

It has been our experience that your Administrative Contracting Officers are hesitant or unwilling to exercise the discretion permitted by the Federal Acquisition Regulation in using expedited methods provided through the Quick Closeout Process. We believe a greater emphasis on the use of Quick Closeout Procedures, where they apply, would yield tremendous gains in attacking the closeout problem.

My staff has advised me that DCMA lacks sufficient funding and personnel to adequately address all of the contract administration actions performed by the Agency. I wish to offer my support and assistance in whatever endeavor you undertake to increase the resources you require. Each of the Procuring Contracting Officers in our Center are keenly aware of the vital work conducted by your Agency to ensure successful completion of our contracts. Numerous situations have arisen where DCMA Sunnyvale personnel have put forth “heroic” effort to solve difficult production and delivery problems, for which we are most grateful. Please be assured that we desire a close working relationship between you, the contractors and our Center in resolving this issue expeditiously.

K. L. Broomer, BG, USA
Commander

EXHIBIT 4

DCMA POLICY STATEMENT CONCERNING CONTRACT CLOSEOUT

DEFENSE CONTRACT MANAGEMENT AGENCY
POLICY STATEMENT NO. 2003-4

13 April 2003

Subject: Contract Closeout

1. It is the policy of the Defense Contract Management Agency (DCMA) that contracts administered by DCMA that have been physically completed will be processed for closeout action as efficiently and effectively as possible in accordance with the provisions of the Federal Acquisition Regulation (FAR), Part 4.804 (a). In particular, to the maximum extent possible and where appropriate for all contracts, Quick Closeout procedures shall be used. A contract is not completed until it has been closed. Timely contract closeout deobligates excess funds for possible use elsewhere, identifies the need for additional funds in a timely fashion, minimizes administrative costs for all contractual parties and allows all affected activities to concentrate on current and future requirements. The early deobligation of excess funds helps our customers to plan, make decisions and budget these funds to their best advantage. Closing the contracts and keeping a record of those actions allows DCMA to track workload and forecast for future resourcing. Timely closeout also minimizes the need to replace cancelled funds with current year funding.

2. The ACO is the team leader for the contract closeout process and, in this role, must ensure coordination among DCMA personnel, Defense Finance and Accounting Service (DFAS) (or other appropriate payment offices), the Buying Activity, Defense Contract Audit Agency (DCAA), other audit agencies, the contractor, and as necessary, the Office of Counsel, Defense Criminal Investigative Service (DCIS), Inspector General (IG), and the Department of Justice to closeout a contract.

3. Further, it is DCMA policy to institute process improvements which, when combined with DCAA audit improvements and contractor timely submission of final vouchers, will allow most contracts to be closed within 24 months of physical completion.

4. Finally, it is DCMA policy that closeout of Other Transactions (OTs) and similar agreements be accomplished within 36 months of expiration of the agreement.

Brigadier General H. S. Warrington, USA
Commander
Defense Contract Management Agency

EXHIBIT 5A

CONTRACT CLOSEOUT METRICS

Metric	Performance Metric	Goal(s)	Purpose of Metric
1	Percentage of Contracts in Closeout Backlog	Backlog is no more than 10% of total contracts administered	Maintain a minimal backlog
2	Percentage of Overage Contracts in Backlog	No more than 2.5% of contracts in backlog are overage	Place tight management control over overage backlog
3	Number Contracts Entering Backlog and Number Contracts Closed Per Month	Number of contracts closed per month is no less than 95% of contracts entering backlog	Maintain a close ratio between contracts entering and existing closeout backlog
4	Funds Deobligated and Returned to Buying Office	No more than 10% of potentially deobligated funds are lost due to failure to deobligate	Return maximum amount of funding to program officers through deobligation
5	Dollar Value of All Open Contracts	No more than $2.5 billion	Control outstanding value of contracts
6	Number of Contracts Awaiting Closeout Action Outside DCMA Sunnyvale	Reduce number of contracts requiring action by other commands to less than 10% of closeout backlog	Management control on DCMA personnel to discourage "dumping" contracts outside DCMA
7	Number of Times Quick Closeout Procedures Used	Use Quick Closeout procedures at least 50% of the time	Emphasize use of Quick Closeout Process
8	Number of Times Unilateral ACO Decision Regarding Final Payment	Increase unilateral decisions to at least 25% of final payment actions	Track trends in use of ACO unilateral action
9	Number of Times ADR Method Used to Resolve Differences	Increase ADR actions to 50% of cases involving differences	Track trends in use of ADR methods
10	Accuracy of Reason Codes **(Not currently used)**	Achieve 95% Accuracy	Track accuracy of reason codes
11	Customer Satisfaction **(Not currently used)**	Fewer than 10 complaints per month	Determine extent of customer dissatisfaction
12	Funds Required to Make Final Payment **(Not currently used)**	Reduce Funds Required to Under $500 per contract	Reduce (and eventually eliminate) funds required from current appropriations for previous year's work
13	Closeout Cost per Contract **(Not currently used)**	Reduce cost of closeout to under $1,000 per contract	Minimize contract closeout costs
14	Average Closeout Processing Time in Full Time Equivalents (FTE) **Not currently used)**	Reduce closeout processing time to under 1/3 of standard FTE	Reduce FTE labor costs
15	Number of Overhead Rate Negotiations Completed **(Not currently used)**	Increase overhead rate negotiations completed by 50%	Efficiently complete overhead rate negotiations

EXHIBIT 5B

FISCAL YEAR 2003 CLOSEOUT METRICS REPORT

Report Period: 1 October 2002-30 September 2003

Metric #	Performance Metric	1st Qtr FY03	2nd Qtr FY03	3rd Qtr FY03	4th Qtr FY03
1	Percentage of Contracts in Closeout Backlog	27.3%	25.8%	22.5%	28.2%
2	Percentage of Overage Contracts in Backlog	17.9%	16.3%	14.7%	17.5%
3	Number Contracts Entering Backlog and Number Contracts Closed Per Month	31/19	28/22	27/28	36/11
4	Funds Deobligated and Returned to Buying Office	$147,218	$122,982	$372,014	$84,795
5	Dollar Value of All Open Contracts	$2,945,377,018	$3,014,753,877	$3,143,922,562	$3,562,085,449
6	Number of Contracts Awaiting Closeout Action Outside DCMA Sunnyvale	30	27	21	10
7	Number of Times Quick Closeout Procedures Used	5	8	10	1
8	Number of Unilateral ACO Decisions Regarding Final Payment	1	0	0	0
9	Number of Times ADR Method Used to Resolve Differences	0	2	0	0

EXHIBIT 6

INDUSTRY CONTRACT CLOSEOUT PRACTICES

COMPANY	INDUSTRY CLOSEOUT PRACTICES	ISSUES
A	We put a clause in each contract that specifies automatic closeout after 180 days unless action is taken by one of the contracts managers to keep it open	
B	We have our accounting firm audit vendors shortly before contract completion. Reconciliation occurs at the time of final delivery.	
C	We incentivize our suppliers to close contracts as soon as they are completed. We budget for this as a separate funding element in each of our contracts.	
D	Managers must ensure contracts are closed in a timely fashion (e.g., 90 days). Failure to manage this area results in a negative evaluation in the manager's annual appraisal.	
E	We have outsourced the process of contract closeout. Only key decisions that must be made by our company management are processed by our personnel. These tend to be very few.	
F	We have a significant amount of property we provide our contractors. We maintain a separate facilities contract with each contractor in order to decouple property issues from supply and service contracts.	

EXHIBIT 7

INDUSTRY COMMENTS REGARDING THE DOD CONTRACT CLOSEOUT PROCESS

"DCAA auditors spend too much time reviewing our accounting records relating to contracts that we've closed."

"Withholding progress payments because we have not submitted a final voucher on contracts the Government says are physically complete is not a fair practice."

"The Air Force has too many specific steps we must take concerning government furnished property. We don't have the resources to do all the paperwork."

"DCMA doesn't use the quick closeout process. They drag every contract through the entire closeout procedure. Let's get real."

"DOD only gets excited about the closeout backlog when a contract has gone overage according to their rules. We are ready to closeout our records as soon as we have delivered our components."

"If you want us to expend resources on closing contract records, pay us."

"The closeout process for Government contracts is working just fine for us."

"DOD seems to have a disjointed method for contract closeouts. Lots of steps which are not coordinated. DOD needs to develop and integrated system for both the Government and private firms that makes sense."

"We've already closed our books on this contract."

"The Government has the product and we've been paid. Why should we spend anymore time on this issue?"

"I believe we all have more important product design and production issues to worry about than to bother with administrative paperwork."

"We have aggressively closed out our Government contracts while working closely with the DCMA to clean up all outstanding ECPs and negotiations."

"There has been a lot of commotion about streamlining Government rules, but there doesn't seem to be any headway made in closing contracts."

"For several reasons, we are considering getting out of Federal Government contract work. Too much of a hassle."

"Why can't we just use good business judgment?"

"Many of the contracts the Navy is asking about were completed several years ago. We don't have those files any longer."

"We are in the business of providing base support services. Contract closeout is not a problem for us."

EXHIBIT 8

CONTRACTOR LETTER OF COMPLAINT

YOUNKER VALVE CO.

431 Express Way

Sunnyvale, CA 99998

October 8, 2003

Defense Contract Management Agency
304 Hectern Court, Suite 13579
Sunnyvale, CA 99998-1101
Attn: Mr. James Ross, ACO

Dear Mr. Ross:

We wish to schedule a meeting with you as soon as possible. The difficulty of satisfactorily closing out contracts is beginning to reach a crisis stage. In good faith, we have attempted to resolve closeout difficulties at our working level, but your contracts administrators seem unwilling to accept the reasonable responses we have made to their requests. The whole process is costing us precious money and time. This should be of concern to all Government officials.

On numerous occasions, we have delivered all of the valves called for in a contract and have received payment in full, yet your office continues to call us for a final invoice, in a particular format, with the threat of withholding progress payments on our other contracts if we fail to comply immediately. This is totally unacceptable. We are a small business and can ill-afford to suffer the impact on cash flow that would result from such an improper action on your part.

At other times, Government-Furnished property has been returned to the site specified in your directions, yet because the paperwork has not cleared through bureaucratic Government channels, we are still held accountable. This has resulted in numerous, time wasting phone calls from your office to determine the status.

We have heard so much about how the Federal Government is reforming the procurement process and adopting commercial practices. Regarding closeout work, it appears that the Government is not at all interested in improving the process.

We have alerted our State Senator, Ms. Marty Thornton, regarding these issues. She has asked us to keep her advised of the progress we make in resolving these concerns.

We would appreciate a response to our request for a meeting as soon as practical.

Stanley Beckerdite
Vice President
Contracts and Pricing

EXHIBIT 9

REPORTS AND STUDIES ADDRESSING CONTRACT CLOSEOUT

1. Bandy, Leigh, “The Contract Closeout Process at DCMC Lockheed Martin,” Master’s Thesis, Naval Postgraduate School, Monterey, CA, December 1998.
2. Council of Defense and Space Industry Associations (CODSIA) comments on the Advance Notice of Proposed Rule-Making (ANPR) on contract closeout published in the Federal Register on 24 September 2002.
3. General Accounting Office, Report No. GAO-02-747, “Canceled DOD Appropriations: Improvements Made but More Corrective Actions Are Needed,” July 2002.
4. General Accounting Office, Report No. GAO-03-275 "Defense Budget: Improved Reviews Needed to Ensure Better Management of Obligated Funds," January 2003.
5. General Accounting Office, Report No. GAO-03-574T, “Sourcing and Acquisition: Challenges Facing the Department of Defense,” 19 March 2003.
6. Motherway, Daniel J., “Applying Continuous Process Improvement to the Contract Closeout Process,” Master’s Thesis, Naval Postgraduate School, Monterey, CA, December 1993.
7. Office of Acquisition and Grants, Social Security Administration comments on the Advance Notice of Proposed Rule-Making (ANPR) on contract closeout published in the Federal Register on 24 September 2002.
8. Office of the Deputy Secretary of Defense, “Report of the Working Integrated Process Team on Contract Closeout,” April 1999.
9. Office of the Inspector General, Department of Defense, Report No. D-92-076- “Administration of the Contract Closeout Process within DoD,” April 15, 1992.
10. Office of the Inspector General, Department of Defense, Report No. 93-058, “Audits of the Contract Closeout Process,” 23 February 1993.

11. Office of the Inspector General, Department of Defense, Report No. D-2002-027 “Closing Overaged Contracts Prior to Fielding a New DOD Contractor Payment System,” 19 December 2001.

12. Office of the Inspector General, Department of Defense, Report No. D–2002-076 “Funding Invoices to Expedite the Closure of Contracts before Transitioning to a New DoD Payment System,” 29 March 2002.

13. Office of the Inspector General, Department of Defense, Report No. D-2003-048 “Reopening of Contracts in the Mechanization of Contract Administration Services (MOCAS) System,” 16 January 2003.

14. Patton, Janet J., “The Contract Closeout Process,” Master’s Thesis, Naval Postgraduate School, Monterey, CA, June 1992.

15. Report of the Process Action Team (PAT) on Contract Administration, Office of the Under Secretary of Defense for Acquisition & Technology, February 1995.

16. Valovcin, James, "Streamlining the Contract Closeout Process," Master's Thesis, Naval Postgraduate School, Monterey, CA, December 1995.

EXHIBIT 10

STAKEHOLDER ANALYSIS

A. Key Players

In order to address the issues affecting an efficient and timely contract closeout, the Department of Defense (DoD) must plan a strategy resulting in part from an assessment of its external environment. This strategy must draw support from all the organizations, groups, or individuals involved in the contract closeout process if changes are going to be implemented successfully. A stakeholder analysis is an effective tool to accomplish this.

B. Why a Stakeholder Analysis?

A stakeholder analysis is the initial step in building the relationships needed for the success of a participatory change, initiative or policy. It could provide DoD with a starting point by establishing which groups to work with and setting out an approach to achieving change in the contract closeout process. A stakeholder analysis also aids in assessing the external environment in which the implementation of those changes, initiatives, or policies will take place. This analysis will, at a minimum:

- Identify and define the characteristics of key stakeholders
- Draw out the interests of the key stakeholders in relation to the issue
- Identify conflicts of interests between stakeholders, to help manage such relationships during the course of the change initiative
- Help to identify relations between stakeholders that may enable "coalitions" of initiative sponsorship, ownership, and cooperation
- Assess the capacity of different stakeholders and stakeholder groups to participate
- Help to assess the appropriate type of participation by different stakeholders, at successive stages of the change initiative cycle, e.g. inform, consult, partnership -- all of these have different possible outcomes.

The analysis should center on the potential desire of each stakeholder organization to actively participate in transforming the contract closeout process. Complete Table 1 with regard to the following three areas (add additional stakeholders as necessary):

- Identification of the major stakeholder groups
- Determination of interests, importance and influence
- Establishment of strategies for involvement

Table 1. STAKEHOLDER ANALYSIS

Stakeholder	Interests on the Initiative	Influence on the Initiative	Strategy for Obtaining Support
Military Services			
DCMA			
DCAA			
DFAS			
USD (C)			
USD (AT & L)			
Congress			
Contractors/Industry			

Legend:

Interest in the Issue	Influence on the Transformation of CCO
++ Strongly in favor	H High; has power to influence or create change, formally or informally
+ In favor	
o Indifferent or undecided	M Medium; could achieve change with level of influence
- Opposed	
-- Strongly opposed	L Low; little influence to create change
Source: Developed by the Authors	

C. The Military Services

The Military Services themselves may have a great desire to transform the contract closeout process, although this group can also be broken down into two distinct sub-groups: the requesting command organization, and the buying/contracting organization within the Service. The requesting command has the greatest stake in terms of potential benefits of transforming the contract closeout process since they are most directly impacted if they are able to more effectively recoup funding from contracts in MOCAS CAR Section 2. In fact, they could potentially benefit in terms of up to $500,000,000 per year if they are able to reutilize appropriations that would otherwise close each fiscal year.[1] In addition, they would also benefit in terms of not having to provide up to $50,000,000 per year in replacement funds[2] to pay for expenditures on older contracts where the appropriations that funded those contracts has closed and is no longer available. Unfortunately, the requiring commands have the least amount of influence in affecting more efficient contract closeout. Even the contracting offices within the requirements commands have minimal action they can complete without having to interface with other stakeholders in the process, possessing less than five percent of the total actions required in the closeout process for overaged contracts.[3]

The second Services group consists of the buying/contracting side of the organization. There is minimal incentive to ensure that overaged contracts are effectively closed out and funding is returned, since most contracting offices are separated from the requirements side of the organization and would not directly benefit from any funding that is returned. In addition, closeout is far from being a priority at most buying commands due to the pressures involved in procuring active requirements and administering current contracts.[4] Although there is a great desire to ensure the Government's funds are spent wisely, that concern does not extend to ensuring funds are returned to requirement offices in a timely manner so they can be expended or obligated on other needs. Focus is not on contract closeout. Indeed, several systems commands have completely contracted out the contract closeout function due to a desire to ensure that such a time-intensive process does not impact current workload. Other systems commands have devoted significant resources towards solving the problems in

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[1] ASN(RD&A) Brief to the MOCAS Closeout Executive Steering Group in April 2003.

[2] Ibid.

[3] MOCAS OPR Matrix, "Buckets of Responsibility," for February 2002 through March 2003.

[4] Interviews with several PCO organizations.

overaged contracts due to their concern for being able to return as much funding as possible to their buying offices. Such an organizational focus vice a single office myopic view of the benefits of recouping funding prior to its closure is what is required in addressing the transformation of the closeout process.

D. The Defense Contract Management Agency (DCMA)

DCMA has a major stake in any actions that are taken to modify the contract closeout process, since the vast majority of the actions required to affect closeout are owned by this stakeholder. Even though DCMA is the organization that expends the greatest amount of effort, in terms of workload, in order to close physically completed contracts, they also have the least incentive to do so. As previously stated throughout this report, contract closeout receives the least amount of emphasis of the three priorities for each DCMA office. As we determined through multiple interviews, the priorities are; 1) active contract administration, 2) pre-award work in preparation for new contracts for existing customer requirements, and 3) contract closeout actions. With an incredible workload given their available personnel resources, it is easy to see how contract closeout quickly falls out of the list of priorities. As stated in multiple GAO reports, DCMA is under-staffed and under-funded for the task at hand. Care must be taken that the first two priority issues for DCMA do not suffer when additional resources are poured into contract closeout due to increased pressure from DoD leadership to eliminate overaged contracts. DCMA does have a great deal to gain, however, from transformation in the contract closeout process. For example, far fewer personnel hours will be required to address the closeout issue, permitting more time to focus on the other two DCMA priorities.

E. DCAA

DCAA is an interesting case as a stakeholder. DCAA's only benefit in CCO transformation would be their ability to focus more resources on their current contract audit program. Recent realignments within DCAA have already bundled periodic auditing with contract closure auditing, thus making changes nearly transparent in terms of the time required for affecting final audits (which are rarely done any more). DCAA also does not report to USD (AT&L), making them a completely separate stakeholder that cannot be influenced from the acquisition community alone. Any changes that impact DCAA will have to come from the USD (C) Office or higher. For several of the recommendations presented in this report, there will likely be a great deal of resistance encountered from DCAA due to the impact on their workforce. Indeed, if commercial auditing or self-certification becomes reality, the vast majority of the auditing requirement will quickly disappear, leaving doubt as to the necessity for such a sprawling audit organization.

F. DFAS

DFAS is another organization that falls outside of the control of USD (AT&L). DFAS-Columbus' primary metric for measuring organizational effectiveness is the timeliness and accuracy of payments being made.[5] Contract closeout is not a priority, even though an enormous amount of resources appear to be dedicated to reconciliation of payment issues on overaged contracts. Multiple GAO reports cite the need to allocate thousands of personnel hours into reconciliation of several complex contracts that require adjustments to closed accounts and potential replacement fund requirements. The complexity of payments made by the Government have had a tremendous impact on DFAS and they stand to benefit the most from transformation of the existing reconciliation process through batch processing, addressed in Chapter IV or changes in the way final invoices are paid, addressed in Chapter V. One motivation for DFAS to get involved in transforming the process is their desire to eliminate payment reconciliation issues and to improve the accuracy of the entire payment system through modernization of their IT systems.

G. Contractors

Government contractors also have a tremendous stake in terms of being able to save significant amounts of money through many of the initiatives forwarded in this report, such as reduced audit requirements, batch processing old contracts in order to focus on newer contract actions, more user-friendly invoicing and reduced payment delays and payment reconciliation, and lower expenses due to a reduction in the personnel hours required to conduct closeouts.

H. Root Causes

In identifying the stakeholders' interests and motivations, we determined several of the root causes to the problem of timely contract closeout and the elimination of the backlog of overaged physically completed contracts. One major finding determined that closeout is every stakeholder's last priority. Another important finding is the inaction for different reasons by some of the key players on the Government side like DCMA, DCAA, DFAS, and Contracting Agencies. Contractors' inaction is mainly due to the fact that they may owe money to the Government from overpayments, may possess Government equipment used during contract performance, or simply, that the closeout process is too expensive with no benefits.

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[5] Interview with DFAS San Diego 03 April 2003.

Next, we assessed the influence and importance of each stakeholder on the change initiative. Influence refers to how powerful the stakeholder is; importance refers to those stakeholders whose problems, needs and interests coincide with the aims of the initiative. It is important to choose the right strategy to obtain support from these "influential" and "important" stakeholders. This strategy will facilitate their involvement or will place them in the best position to assist. Not addressing each stakeholder's driving factors and motivations to embrace transformation or initiatives of the closeout process, will not earn the allies that are necessary to affect the organizational changes required.

The bottom line is that the DoD's contract closeout process requires a great deal of coordination between various organizations or groups. Currently each organization is aligned to best meet its individual interests, goals and results, thus sub-optimizing the entire process. The failure to see the common good in eliminating common problems is an issue that DoD faces in nearly every DoDIG and GAO report we reviewed. The payment system is set up to achieve fast-pay goals of DFAS, not the goals of the entire organization. Contracts are written by buying commands to make the most of innovative clauses and payment terms in order to achieve the best result for the requesting activity, not to ensure the simplicity in bill paying or ease in reconciliation for DFAS or contract administration for DCMA. Buying command requirements to track specific funding allocations down to minute detail requires additional ACRN requirements that make payment and reconciliation for DFAS far more difficult that it needs to be. The method of affecting periodic audits from DCAA is based on that organization's metric for time per dollar of contract value, thus creating a system where many contracts will become overaged and will delay settlement of final rates for contractors simply due to DCAA's audit procedures. Each organization is set up to succeed in meeting their own organizational goals, not for ensuring an effective and efficient closeout process that will benefit the tax payers and the DoD as a whole. Poor communications between activities and sub-optimization at nearly every level of the acquisition process has created the problems in eliminating overaged contracts and it is only through cooperative efforts and collaboration between the stakeholders where alignment of organizational needs at the DoD level can this issue be resolved. This issue can only be resolved through cooperative efforts and collaboration between the stakeholders and alignment of organizational needs at the DoD level.

Note: This Exhibit was adopted partially from Appendix B of the MBA Professional Report entitled "Transformation of DOD Contract Closeout" June 2003

EXHIBIT 11

POTENTIAL SOLUTIONS TO CONTRACT CLOSEOUT ISSUES

1. Place a clause in the contract that automatically causes the contract to be closed within 180 days of physical completion unless someone takes positive action to keep the contract open.
2. "Contract out" the process of contract closeout.
3. Ensure that "quick closeout" procedures are being used to the maximum extent.
4. Commence the contract closeout checklist (DD1597) **XXX** days before the anticipated date that physical completion will occur.
5. Determine if the Contract Completion Statement (DD1594) can be completed during contract performance.
6. Make contractor failure to participate in contract closeout in a timely fashion an element of past performance.
7. Batch process contracts to be closed, e.g., by contractor (CAGE code), by type of contract, by nature of work effort (services, goods, R&D, etc)
8. Establish a separate "facilities" contract to dispose of all Government property issues independent of contracts to be closed.
9. Deobligate funds at the time it can be determined they are not needed as opposed to waiting until all contract closeout actions are completed.
10. Incentivize contractors to expedite all contract closeout actions falling within their responsibility.
11. Attempt to award all contractual actions under $100,000 using Simplified Action Procedures (SAP).
12. Consider all contracts under the Simplified Acquisition Threshold (SAT) to be automatically closed unless positive action is taken to maintain as open.
13. Use FPRA/FPRR rates for closeout rather than waiting for final overhead rate negotiations.
14. Determine if special closeout provisions can be developed and applied to small businesses.

15. Make Special Tooling (ST) and Special Test Equipment (STE) a deliverable.
16. Determine what percentage of the time the Government needs/uses Government-Furnished Property (GFP) elsewhere after contract completion. If not used most of the time, consider "abandoning in place."
17. Have the buying office PCOs delegate all contract closeout decisions/approvals to the ACO.
18. In several instances, multiple delivery orders are issued against a basic contract. Instead of clearing Government Property, Final Patent Reports, Security Releases, etc. against each individual delivery order, clear them against the basic contract at one time.
19. Determining if the DCAA audit of the final voucher can be eliminated.

EXHIBIT 12

STRATEGIC PLANNING

(Adapted from Prof Cary Simon, GSBPP, NPS)

STEPS

1. Strategic Issues Identification
2. Identify Strengths, Weaknesses, Threats, Opportunities
3. Five Key Questions for Identifying Strategies
4. Checklist of Criteria for Evaluating Strategies
5. Creating and Implementing the Strategic Plan

1. Strategic Issues Identification

What are the issues? Phrase each issue as a question that has more than one answer. The issues should be ones the organization can do something about. Why are these issues? How are they related to our mission, mandates, internal strengths and weaknesses, or external opportunities and threats?

2. Identify Strengths, Weaknesses, Threats, Opportunities

Strengths:

Weaknesses:

Opportunities:

Threats:

3. Five Key Questions for Identifying Strategies

Strategic issue:

Issue-specific goals:

1. What are the alternatives we might pursue to address this issue & achieve our goals?
2. What are the barriers to realizing these alternatives?
3. What initiatives might we pursue to achieve these alternatives directly, or else indirectly through overcoming the barriers?

4. What are the key actions (with existing resources of people & dollars) that must be taken this year to implement the initiatives?
5. What specific steps must be taken within the next six months to implement the initiatives, and who is responsible for taking them?

4. Checklist of Criteria for Evaluating Strategies

Instructions: Identify the issue and goals to be addressed, and the performance measures to be used. Discuss how well the strategy performs against the following criteria.

Issue:

Strategy:

Goals:

Objectives:

Performance Measures:

Acceptability to key decision makers, stakeholders, and opinion leaders

Acceptability to the general public

Client or user impact

Relevance to the issue

Consistency with mission, values, philosophy, and culture

Coordination or integration with other strategies, programs, and activities

Technical feasibility

Cost and financing

Cost-effectiveness

Long-term impact

Risk assessment

Staff requirements

Flexibility or adaptability

Timing

Facility requirements

Other appropriate criteria

5. Creating and Implementing the Strategic Plan

Priority:

Relevant strategy:

What specific actions must be taken to implement the strategy in the next six months to a year?

What are the expected results and milestones?

Who are the responsible parties? What are their roles and responsibilities?

When will the actions be taken?

What resources will be required and where will they be obtained?

How will action plan implementation be reviewed and monitored and accountability assured?

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