

**CONTRACT CLOSE OUT**

*[Reference: FAR 4.8; DEAR 904.8]*

**Overview**

This section of the chapter provides guidance relating to coverage found in Subpart 4.8 of the Federal Acquisition Regulation and Subpart 904.8 of the Department of Energy Acquisition Regulation. It provides general guidance for the close out of DOE contracts and interagency agreements.

**Background**

This Chapter concerns the final phase of the contract life cycle. The contract close out process can vary from very simple in the case of a fixed price supply order using simplified acquisition procedures to very complex in the case of a multiple year cost reimbursement contract. Timely contract close out may result in recovery of excess funds for possible use elsewhere, identifies the need for additional funds in a timely manner, and minimizes administrative costs for both the contractor and the Government.

The FAR and the DEAR both provide summary level closeout coverage. This Guide Chapter provides more detailed guidance regarding the individual steps that are required to close various types of contracts. It is intended as a general guide for use by all DOE contracting activities. It is not intended to replace established local procedures that may be necessary to address unique circumstances of a particular organization.

To ensure the timely closeout of contracts, FAR 4.804-1 provides the following closeout lead time standards:

- Simplified acquisitions - Immediately upon completion of delivery and payment.
- Firm-fixed-price contracts - Within 6 months of confirmation of contract completion.
- Contracts requiring settlement of indirect cost rates - Within 36 months of the month the contracting officer receives evidence of physical completion.
- All other contracts - Within 20 months of the month in which the contracting officer receives evidence of physical completion.

These standards apply unless there are circumstances involving litigation or appeal; outstanding audit or financial issues; or in the case of termination, actions that are required under FAR Part 49 are incomplete. In such cases, the issue(s) must be resolved prior to close-out, regardless of the applicable time standard.

Departmental regulations at DEAR 904.804-1 require that Heads of Contracting Activities ensure that necessary procedures and milestone schedules are established to meet the closeout lead time standards cited above, and that resources are applied to effect the earliest practical

deobligation of excess funds and the timely closeout of all contract files which are physically completed or otherwise eligible for closeout action.

Under certain circumstances, FAR 42.708 provides a quick closeout procedure for cost reimbursement contracts to reduce administrative costs and to enable deobligation of excess funds. Contracting Officers may negotiate the settlement of indirect rates in advance of the determination of final indirect rates if:

- 1) the contract is physically complete;
  - 2) the amount of unsettled indirect cost to be allocated the contract is relatively insignificant, i.e.,
    - a) less than \$1,000,000 total unsettled indirect cost to be allocated to a single contract;
    - b) the cumulative unsettled indirect costs to be allocated to one or more contracts in a single fiscal year do not exceed 15% of the estimated, total unsettled indirect costs for that fiscal year; and
  - 3) agreement can be reached on a reasonable estimate of the allocable dollars.
- Indirect cost rates used in the quick closeout of a contract cannot be considered a binding precedent when establishing the final indirect cost rates for other contracts.

### **Guidance**

To assist contracting activities through the closeout process, four templets are provided as an attachment to this guide chapter for each of the closeout standards referenced above. The templets provide a checklist of the steps which are generally necessary to be completed to closeout a certain type of contract. When using templets, Contracting Officers may tailor checklists to consider only those items which are necessary for the circumstances under the individual contract being closed-out.

Many contracting offices are currently using automated systems to track close out actions and maintain electronic copies of close out documents. If you would like more information on processes used by other offices or if you would like examples of close out documents, please contact the Office of Procurement and Assistance Policy, Richard Langston at (202) 586-8247 or via e-mail at [richard.langston@pr.doe.gov](mailto:richard.langston@pr.doe.gov).

### **Best Practices**

The Office of Federal Procurement Policy has issued guidance in a Contract Administration Guide to provide Contracting Officers information on best practices regarding closeout issues which may impede the timely closeout of contracts. The following list provides excerpts from the guide:

#### **CONCERN - LACK OF MANAGEMENT ATTENTION TO CONTRACT CLOSEOUT**

Establishing a separate closeout function within the contracting organization emphasizes the importance of contract closeout.

The best time to concentrate on contract closeout may be during the October to February time frame when the contract placement workload may be less.

Using contractor support may be an efficient way to accomplish contract closeout when in-house resources are limited.

Such administrative functions as creating the closeout file, soliciting required closeout forms from internal organizations, obtaining the contractor's release are duties that can be performed through contractor support as long as the forms are executed and approved by the Government contracting official. Although the contract specialist continues to work with the contractor through physical completion under "cradle-to-grave" contract administration, this does not prohibit a separate group from performing the closeout function.

Entering into agreements with the Defense Contract Management Command to perform contract administration and contract closeout functions may be useful when in-house resources are limited.

Rewarding employees through incentive awards (i.e., on-the-spot cash awards) for the highest number of closeouts completed is a good motivation factor.

Using measurement standards such as those prescribed in the FAR for closing various types of contracts helps to keep the focus on the closeout effort.

Cross-training in contract closeout is good for contract specialists as it helps them to understand the importance of writing good contracts as well as good contract administration.

#### **CONCERN - POOR MANAGEMENT INFORMATION SYSTEMS TO MONITOR THE CONTRACT CLOSE OUT PROCESS.**

Consider using a management information system with milestones to track contract closeout from physical completion through final payment.

Integrating the closeout system with a word processing capability allows for automatic generation of closeout letters which speeds up the closeout process.

Using contractor support for data entry services may be an alternative when in-house resources are limited.

#### **CONCERN - POOR COORDINATION AMONG CONTRACTING ACTIVITY, INSPECTOR GENERAL (IG), AND COGNIZANT AUDIT AGENCY**

It may be helpful to notify the IG and the cognizant audit agency whenever a cost-reimbursement contract is awarded that requires an incurred cost or indirect cost rate proposal audit. Providing

that information at the time of award helps the audit agency program future requirements into its workload projections.

Forecasting audit needs and communicating those needs to the IG and the cognizant audit agency helps to improve working relationships. Developing an information management system may be a useful tool to facilitate that process. Prioritizing audit requirements and communicating these requirements to the IG and the cognizant audit agency helps in projecting the audit workload. Specifically stating in the audit request any special information that should be included in the audit report makes the report more useful and improves working relationships between the contracting office, the IG's office, and the cognizant audit agency.

Using a team approach consisting of contracting officials and audit staff to determine those contractors that should be audited helps to forecast audit requirements better.

Sharing such information with the cognizant audit agency as a listing of prime and subcontracts awarded that are subject to defective pricing reviews or contracts physically completed but not closed over three years helps the auditors to better define the audit backlog, determine audit resources, and prioritize contractor locations for audits.

Subsequently, requesting the cognizant audit agency to provide such information as the directory of for-profit contractors with the audit office responsible for the contractor's audit and those contractors that are late in submitting their indirect cost rate proposals or submitted inadequate proposals helps the contracting office project its closeout workload.

#### **CONCERN - LARGE BACKLOG OF UNSCHEDULED AUDITS.**

Using quick closeout procedures to the extent practicable helps to reduce the audit workload. When a determination can be made that there is no evidence of fraud or waste, the contractor's performance is good, and there is no history of unallowable costs, then quick closeout procedures may be appropriate.

Performing risk assessments to determine contractors that should be audited will help to better manage the audit workload.

Encouraging contractors to submit their final vouchers in a timely manner avoids delays in requesting the final closeout audit under cost reimbursement contracts.

Using rate checks (labor and indirect cost rate) to the maximum extent possible instead of full blown audits when such audits would not add value helps to reduce audit backlog.

**CONCERN - NONCOMPLIANCE WITH FAR PROVISION FOR SUBMITTING INDIRECT COST PROPOSALS BY SOME CONTRACTORS DELAYS THE AUDIT PROCESS.**

Using the post award orientation session to educate the contractors (in particular small business firms) on the requirements for contract closeouts and the need to submit indirect cost proposals in a timely manner should help make the closeout process easier.

**CONCERN - AVOIDING DISPUTES IN CLOSE OUT.**

In construction contracting, claims sometimes cause closeout problems.

An alternative dispute resolution technique known as "partnering" should be considered. Creating a partnership agreement with the contractor helps to avoid disputes. Having the partnership agreement signed by all parties -- the contracting officer, COTR, and the contractor - creates a buy-in to the overall goal: "Completion on time, within budget, and without claims."

**CONCERN - LACK OF A SPECIFIC DOLLAR THRESHOLD FOR USING QUICK CLOSEOUT PROCEDURES.**

Using specific dollar thresholds for quick closeouts may be practicable so long as the government's interests are protected, low risk is involved, and indirect rates can be verified. Knowing the contractor's history of incurred costs, billings, and performance are additional factors to be considered when establishing thresholds for using quick closeouts.

Establishing a good working relationship with the finance office helps in the closeout process. Getting the finance office to provide a listing of contracts where money will be lost if final settlement does not occur helps to target attention on those contracts that may be closed through quick closeout procedures.

**CONCERN - ENSURING ADEQUATE CLOSE OUT DOCUMENTATION.**

Always use a checklist and include it in the contract file when closing contracts. This helps assure that all actions have been completed.

**SIMPLIFIED ACQUISITION CLOSE OUT TEMPLAT**

A simplified acquisition should be closed as soon as the Contracting Officer receives evidence of receipt of the deliverable and final payment. Close out of simplified acquisitions will ordinarily be quite simple as illustrated by the Milestone Checklist shown below.

**Sample Close Out Checklist for Simplified Acquisitions**

<b>Action</b>	<b>Requested</b>	<b>Completed</b>
Acceptance of Work		
Final Payment		
Others: As Applicable		
Prepare Close Out Individual Procurement Action Report		

**Acceptance of Work** - DOE does not specify a particular form or format for this action. For a simplified acquisition, simplicity is key. A local form or a note verifying receipt may be used.

**Final Payment** - Ascertain through a liquidation status report from the Departmental Integrated Standardized Core Accounting System (DISCAS) or other local system.

**Others** - Special circumstances may require the addition of a milestone, for example, if Government property was furnished a milestone would be added for its disposition.

**Prepare Close Out Individual Procurement Action Report** - Processing this form removes the action from the Procurement and Assistance Data System (PADS) register of completed awards awaiting final close out. There is an Individual Procurement Action Handbook available at <http://www.pr.doe.gov> under the "professionals" link.

**FIRM-FIXED-PRICE CONTRACT CLOSE OUT TEMPLAT**

**Prepare Close Out Checklist** - The first step in any formal contract close out should be a review of the contract file to ascertain what will be needed and what may already be on hand. This can result in a tailored Contract Close Out Checklist specific to each contract. A sample is shown below. This has a greater number of items than would be typical of a simple, fixed price commercial product, supply contract. When creating a checklist, include only those items necessary for the circumstances.

**Sample Close Out Checklist for Firm-Fixed-Price Contracts**

<b>Action</b>	<b>Requested</b>	<b>Completed</b>
Acceptance of Work		
Final Invoice		
Contractor Closeout Request Letter		
Obtain Patent/Royalty Clearance		
Obtain Property Clearance		
Obtain Security Clearance		
Confirm Receipt of Technical Reports		
Final Release		
Approve Final Invoice for Payment		
Verify Final Payment		
Contract Completion Statement		
Prepare Close Out Individual Procurement Action Report		

**Acceptance of Work** - Contracting personnel are responsible for initiating close out of the contract after receiving notice of its completion. DOE does not specify a particular form or format for this notice. A local form, a note verifying receipt, or a form letter may be used. Generally, the Close Out Specialist obtains this from the Contracting Officer Representative or Project Officer.

**Final Invoice** - Under a simple fixed price contract an invoice for final payment will be received shortly after receipt of the deliverable. The invoice can be processed for payment pending completion of the closing process. Fixed price contracts for construction, architect engineer services, time and material and labor hours all include a payment retention which will not be released until closeout steps are completed and the contractor furnishes a final release.

**Contractor Close Out Request Letter** - A contractor close out request letter should be prepared and tailored, like a checklist, to the contract circumstances. If any reporting requirements are unsatisfied at the time of letter preparation, those reports should be requested in the letter. A final release is requested of all contractors. Additional items might include clearances for patents,

property, a request for final invoice (important if a portion of the payments have been retained), etc..

**Patent/Royalty Clearance** - Contracts with patent provisions require a patent and royalty certificate. It is completed by the contractor as part of the close out package and then coordinated with counsel.

**Property Certificate** - Disposition of any Government owned property must be made before close out can occur. A property certificate is used for this purpose. It is completed by the contractor as part of the close out package and coordinated with the property office.

**Security Clearance** - Pursuant to DOE 471.1, the Contracting Officer Representative is responsible for initiating the closing Contract Security Classification Specification, DOE Form 5634.2, along with a Certificate of Non-Possession. The Certificate of Non-possession must be coordinated with the contractor. Local procedures may vary but consider including a Certificate of Non-Possession in the close out package. At times, the contractor may need to continue some access authorizations for work on other contracts. This should be noted on the forms. The Contracting Officer Representative completes, signs and sends the closing DOE Form 5634.2 and Certificate of Non-Possession to Procurement for their signature on both items. These two documents are then sent to security for the contract to be deleted from the Safeguards and Security Information Management System. A completed DOE Form 5634.2 and a Certificate of Non-Possession are required for the prime contractor and each subcontractor. The Security Information Management System won't allow deletion of a prime without first deleting its subcontracts. Further details on these procedures are found in DOE M 471.2-1B.

**Confirm Receipt of Technical Reports** - For contracts with technical or scientific report requirements, verify that all OSTI-designated reports have been forwarded by checking the DOE Energy Link System at <http://www.osti.gov/mlink/> The Energy Link (E-Link) System is an interactive system for submitting electronic scientific and technical information reports and other electronic reporting products to the Department of Energy (DOE) over the Internet.

**Final Release** - A final release is a release discharging the Government, its officers, agents and employees from all liabilities, obligations and claims under the contract.

It is obtained on all fixed price contracts. Final payment need not be delayed for it except for construction, architect-engineer, and time and material/labor hour contracts where the withheld share of payments is not paid until the contractor submits the release.

**Approve Final Invoice for Payment** - If final payment has not already been made approve the final invoice for payment and provide notice to the finance office.

**Verify Final Payment** - Verify that the finance office has made final payment.

**Contract Completion Statement** - A contract completion statement containing the summary information required by FAR 4.804-5 (b) must be signed by the contracting officer and placed in the close out file.



**Prepare Close Out Individual Procurement Action Report** - Processing this form removes the action from the Procurement and Assistance Data System (PADS) register of completed awards awaiting final close out. A sample form is attached in the model close out documents section. Contract status should be coded RA. There is an Individual Procurement Action Handbook available at <http://www.pr.doe.gov> at the "professionals" link.

## CONTRACTS REQUIRING SETTLEMENT OF INDIRECT COST RATES CLOSE OUT TEMPLAT

**Prepare Close Out Checklist** - The first step in any formal contract close out should be a review of the contract file to ascertain what will be needed and what may already be on hand. This can result in a tailored Contract Close Out Checklist specific to each close out. A sample is shown below. When creating a checklist, include only those items necessary for your circumstances.

### Sample Close Out Checklist for Contracts Requiring Settlement of Indirect Cost Rates, e.g. cost reimbursement contracts, fixed-price incentive contracts.

Action	Requested	Completed
Acceptance of Work		
Complete Funds Review		
Contractor Close Out Request Letter and Forms		
Review Contractor Forms		
Request Audit or Audit Waiver		
Patent/Royalty Certificate		
Property Certificate		
Security Clearance		
Confirm Receipt of Technical Reports		
Receive Audit and Resolve Audit Questions		
Summary Settlement Statement Review and Concurrence		
General Assignment and Final Release		
Approve Final Invoice for Payment		
Funding Adjustment		
Confirm Final Payment		
Contract Completion Statement		
Prepare Close Out Individual Procurement Action Report		

**Acceptance of Work** - The office administering the award is responsible for initiating administrative closeout of the award after receiving evidence of it's physical completion. The Acceptance of Work signifies official acceptance of deliverables and other reporting requirements on behalf of the government. The Contracting Officer Representative or Project Officer should return the certification within 10 working days of issue. The Acceptance of Work Form Letter can be sent via electronic mail. Reporting requirements clearance (OSTI Clearance) is addressed in a later step, however, the submission of all required reports is necessary for the

initiation of closeout activities. This is required for all award actions, prior to the initiation of closeout activities.

**Complete Funds Review** - A review of funds obligated to the award instrument, payments made to the awardee, and pending invoices should be made prior to the transmittal of the Contractor Close Out Request Letter and Forms package. Amounts should be compared to running balances included on the awardee's invoice/voucher, and against award documents.

**Contractor Close Out Request Letter and Forms** - The Close Out Letter is used to notify the awardee of the closeout process and transmit forms for awardee completion. If any reporting requirements are unsatisfied at the time of completion, those reports should be requested in this letter. This is a good time to remind the contractor of its responsibility to submit indirect cost rate proposals as required by the Allowable Cost and Payment clause of FAR 52.216-7. See Chapter 42 of this Guide for further information. Sample request letters are illustrated in the forms section. This is required for all close out actions.

**Review Contractor Forms** - All forms transmitted with the Completion Letter must be properly completed and returned prior to the completion of further closeout milestones. Review the contractor's completed forms as soon after receipt as possible and follow up on incomplete or missing information.

**Request Audit or Audit Waiver** - Audit should be handled as soon as possible in the close-out process since this is a time-consuming step often delayed due to audit workload, processing time, and priority level. The decision to waive a final audit should be decided on a case-by-case basis. Prudence should be used to ensure that the Government's financial interests are sufficiently protected. An audit is required when quick close-out procedures do not apply (See FAR 42.708).

**Patent/Royalty Certificate** - A Patent/Royalty Certificate, when applicable, is forwarded for contractor execution, as an attachment to the close out letter. The Patent/Royalty Certificate, executed by the contractor, is coordinated with Counsel.

**Property Certificate** - A Property Certificate, when applicable, is forwarded for execution by the contractor, as an attachment to the close out letter.

The Property Certificate, executed by the contractor, is coordinated with the Property Office. If there is property requiring disposition that office will generally take appropriate actions and advise when complete.

**Security Clearance** - Pursuant to DOE 471.1, the Contracting Officer Representative is responsible for initiating the closing Contract Security Classification Specification, DOE Form 5634.2, along with a Certificate of Non-Possession. The Certificate of Non-possession must be coordinated with the contractor. Local procedures may vary but consider including a Certificate of Non-Possession in the close out package. At times, the contractor may need to continue all or some access authorizations for work on other contracts. This should be noted on the forms. The COR completes, signs and sends the closing DOE Form 5634.2 and Certificate of Non-Possession to Procurement for their signature on both items. These two documents are then sent

to security for the contract to be deleted from the Safeguards and Security Information Management System. A completed DOE Form 5634.2 and a Certificate of Non-Possession are required for the prime contractor and each subcontractor. The Security Information Management System won't allow deletion of a prime without first deleting its subcontracts. Further details on these procedures are found in DOE M 471.2-1B.

**Confirm Receipt of Technical Reports** - For contracts with technical or scientific report requirements, verify that all OSTI-designated reports have been forwarded by checking the DOE Energy Link System at <http://www.osti.gov/mlink/>. The Energy Link (E-Link) System is an interactive system for submitting electronic scientific and technical information (STI) reports and other electronic STI products to the Department of Energy (DOE) over the Internet.

**Receive Audit and Resolve Audit Questions** - If the audit identifies problems with claimed costs or questions costs, these matters must be resolved with the contractor.

**Summary Settlement Statement Review and Concurrence** - The Summary Settlement Statement outlines direct and indirect costs, fees, and retainage. The Contracting Officer verifies this document for accuracy following return from the awardee, prior to approval of final payment.

**General Assignment and Final Release** - The Contractor must execute a General Assignment which assigns to the Government any refunds, rebates, credits or other amounts allocable to costs for which the Contractor has been reimbursed by the Government. The Contractor must also execute a final release discharging the Government, its officers, agents, and employees from all liabilities, obligations and claims under the contract except claims which may be specified. Some offices add the final release to the contract completion statement and make the completion statement a bilateral document. This is an acceptable practice.

**Approve Final Invoice for Payment** - Following receipt of a signed Completion Statement, and the satisfaction of all other contract administration actions, notice of approval to pay the final invoice may be transmitted to the paying office.

**Funding Adjustment** - If funds remain after payment of the final invoice, the balance must be deobligated prior to the retirement of the award. Other funding adjustments might be necessary. Depending upon the type of award, the deobligation will be done by formal modification or deobligation without obligating documents per local procedures.

**Confirm Final Payment** - Ensure that final payment has been made.

**Contract Completion Statement** - A contract completion statement containing the summary information required by FAR 4.804-5 (b) must be signed by the contracting officer and placed in the close out file.

**Prepare Close Out Individual Procurement Action Report** - Processing this form removes the action from the Procurement and Assistance Data System (PADS) register of completed awards

awaiting final close out. A sample form indicating the blocks which must be completed is attached in the model close out documents section. There is an Individual Procurement Action Handbook available at <http://www.pr.doe.gov> at the "professionals" link.

**OTHER CONTRACTS CLOSE OUT TEMPLAT**

**Prepare Close Out Checklist** - The first step in any formal contract close out should be a review of the contract file to ascertain what will be needed and what may already be on hand. This can result in a tailored Contract Close Out Checklist specific to each close out. A sample is shown below. When creating a checklist, try to include only those items necessary for your circumstances.

**Sample Close Out Checklist for Other Contracts, e.g. Interagency Agreements**

Action	Requested	Completed
Acceptance of Work		
Close Out Letter		
Patent/Royalty Certificate		
Property Certificate		
Confirm Receipt of Technical Reports		
Close Out Request to Finance		
Verify Final Payment		
Contract Completion Statement		
Prepare Close Out Individual Procurement Action Report		

**Acceptance of Work** - Contracting personnel are responsible for initiating close out of the agreement after receiving notice of its completion. DOE does not specify a particular form or format for this notice. A local form, a note verifying receipt, or a form letter such as the illustration at the model close out documents section may be used. Generally, the Close Out Specialist obtains this from the Contracting Officer Representative or Project Officer.

**Close Out Letter** - Like a checklist, a close out request letter should be prepared and tailored to the circumstances.

**Patent Certificate** - A Patent Certificate, when applicable, is forwarded for execution, as an attachment to the close out letter. The completed Patent Certificate is coordinated with Counsel.

**Property Certificate** - A Property Certificate, when applicable, is forwarded for execution by the other agency, as an attachment to the close out letter.

The Property Certificate, executed by the other agency, is coordinated with the Property Office. If there is property requiring disposition, the property office will generally take appropriate actions and advise when complete.

**Confirm Receipt of Technical Reports** - For interagency agreements with technical or scientific report requirements, verify that all OSTI-designated reports have been forwarded by

checking the DOE Energy Link System at <http://www.osti.gov/mlink/> The Energy Link (E-Link) System is an interactive system for submitting electronic scientific and technical information (STI) reports and other electronic STI products to the Department of Energy (DOE) over the Internet.

**Close Out Request to Finance** - If final payment has not yet been made, approval for final payment should be forwarded to the finance office. Construction, A-E, time and material and labor hour contracts typically retain a portion of the payments until final release and close out.

**Verify Final Payment** - Verify with the Finance Office that final payment has been made.

**Contract Completion Statement** - A contract completion statement containing the summary information required by FAR 4.804-5 (b) must be signed by the contracting officer and placed in the close out file.

**Prepare Close Out Individual Procurement Action Report** - Processing this form removes the action from the Procurement and Assistance Data System (PADS) register of completed awards awaiting final close out. A sample form indicating the blocks which must be completed is attached in the model close out documents section. There is an Individual Procurement Action Handbook available at <http://www.pr.doe.gov> at the "professionals" link.