



**OFFICE OF THE UNDER SECRETARY OF DEFENSE**  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JUL 21 2005

COMPTROLLER

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, DEFENSE INTELLIGENCE AGENCY  
DIRECTOR, NATIONAL SECURITY AGENCY/CENTRAL  
SECURITY SERVICE  
COMMANDER, UNITED STATES ARMY CORPS OF  
ENGINEERS**

**SUBJECT: Identification of Contracts Eligible for Settlement under the Special  
Temporary Contract Closeout Authority, Section 804 of the National  
Defense Authorization Act (NDAA) for Fiscal Year 2004, as Amended**

On May 23, 2005, my office issued the attached "Procedures for Settling Financial Accounts Under the Special Temporary Contract Closeout Authority, Section 804 of the NDAA for Fiscal Year 2004, As Amended." The Special Temporary Contract Closeout Authority allows the Secretary of Defense to settle any financial account for a contract entered into before October 1, 1996, that is administratively complete, if the financial account has an unreconciled balance, either positive or negative, that is less than \$100,000. The Under Secretary of Defense (Comptroller) (USD(C)) has been authorized to settle the financial accounts. Once authorized, all adjustments to the financial accounts must be completed by September 30, 2006.

For a contract to be eligible under the provisions of this legislation, all of the following criteria must be met:

- a. The contract has an unreconciled balance.
- b. The contract was entered into by the Secretary of Defense or the Secretary of a military department before October 1, 1996.
- c. The contract financial balance in the accounting system books and records is, either positive or negative, less than \$100,000. If accounting books and records are not available, the contract is not eligible for settlement under the legislation.
- d. The contract is administratively complete.

The Defense Finance and Accounting Service (DFAS), Columbus, has established a centralized database of active, dormant, and unreconciled contracts that are potential candidates for settlement under the legislation that were entered into before October 1, 1996, and were extracted from the following entitlement systems: Mechanization of Contract Administration Services (MOCAS), Computerized Accounts Payable System, Windows (CAPS/WINDOWS), Computerized Accounts Payable System, Clipper (CAPS/CLIPPER), and Integrated Accounts Payable System (IAPS). DFAS is currently working with the Navy to identify contracts in the Standard Transactions Accounting Reporting System (STARS) that may be eligible for settlement under the legislation.

To identify the universe of contracts that are eligible for settlement under the legislation before it expires on September 30, 2006, you are to take necessary actions to review the centralized database and:

- a. determine if accounting books and records, as defined in the attached procedures, exist and are available, and ensure this information is recorded in the centralized database by August 15, 2005;
- b. determine the contract financial balance, complete all data fields in the centralized database that are identified for completion by the accounting offices, and certify the financial balance on the form entitled, "Certification of Financial Balance, Special Temporary Contract Closeout Authority," by September 15, 2005. You are to forward your signed certification to the DFAS in accordance with the instructions noted in the centralized database, available at <https://dfas4dod.dfas.mil/cps/NDAA.htm>.

The Defense Contract Management Agency (DCMA) has directed its Administrative Contracting Officers to review the contracts in the centralized database that were extracted from the MOCAS entitlement system, determine and update the database for their administrative status, and provide required documentation to DFAS by August 5, 2005. The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) will direct the cognizant Administrative Contracting Officers to review the contracts in the centralized database that were extracted from CAPS/WINDOWS, CAPS/CLIPPER, and IAPS to determine and update the database for their administrative status, once the accounting offices have updated the database to identify those contracts where accounting books and records exist and are available.

In order to avoid a bottleneck of contracts being processed at one time, you are to update the centralized database as information comes available and forward the contract financial balance certifications to DFAS Columbus in a timely manner.

Instructions to access the centralized database are available at <https://dfas4dod.dfas.mil/cps/NDAA.htm>. Questions related to the database should be directed to Mr. Mark Sweet, who may be reached by telephone at (614) 693-1781, or e-mail at [mark.sweet@dfas.mil](mailto:mark.sweet@dfas.mil). My staff point of contact, Ms. Carol Phillips, may be reached by telephone at (703) 693-6503, or by e-mail at [carol.phillips@osd.mil](mailto:carol.phillips@osd.mil).

  
Teresa McKay  
Deputy Chief Financial Officer

Attachment:  
As stated

cc:  
OUSD(AT&L)  
DCMA

**Procedures for Settling Financial Accounts  
Under the Special Temporary Contract Closeout Authority  
Section 804 of the National Defense Authorization Act (NDAA) for Fiscal Year 2004,  
As Amended**

A. Purpose. This financial management policy prescribes procedures to implement Section 804 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2004 (Public Law 108-136), as amended by Section 852 of the Ronald W. Reagan NDAA for FY 2005 (Public Law 108-375), entitled Special Temporary Contract Closeout Authority.

B. Introduction. Section 804 of the NDAA for FY 2004, as amended, provides the Department of Defense (DoD) with special temporary contract closeout authority. This authority, which expires after September 30, 2006, allows the Secretary of Defense to settle any financial account for a contract entered into by the Secretary or the Secretary of a military department before October 1, 1996, that is administratively complete, if the financial account has an unreconciled balance, either positive or negative, that is less than \$100,000. Under regulations prescribed by the Secretary, these settlements of a financial account for a contract for the procurement of property or services may be made without regard to (a) Section 1301 of Title 31, United States Code; and (b) any other provision of law that would preclude charging payments under the contract--

(i) to an unobligated balance in an appropriation available for funding that contract; or

(ii) if and to the extent that the unobligated balance (if any) in such appropriation is insufficient for funding such payments, to any current appropriation that is available to the Department of Defense for funding contracts for the procurement of the same or similar property or services.

C. Eligibility Criteria. For a contract to be eligible under the provisions of this legislation, the following criteria must be met:

- the contract has an unreconciled balance;
- the balance in the accounting system books and records is, either positive or negative, less than \$100,000;
- the contract is administratively complete; **and**
- the contract was entered into by the Secretary of Defense or the Secretary of a military department before October 1, 1996. Contracts entered into by the Secretary of Defense or the Secretary of a military department before October 1, 1996, include those contracts entered into by the Defense Agencies.

D. Authority to Settle Financial Accounts. The Secretary of Defense (or authorized designee) has the authority to settle the financial accounts for contracts under the provisions of Section 804 of the NDAA for FY 2004, as amended. This authority expires September 30, 2006; therefore, all packages submitted for authorization (discussed in Section G) should be received in the Office of the Secretary of Defense (OSD) by September 1, 2006, to allow adequate time for review and approval. Once authorized, adjustments to the financial accounts will be completed by September 30, 2006.

E. Definitions.

For purposes of implementing the Special Temporary Contract Closeout Authority legislation, the following definitions will apply:

1. Accounting Books and Records. The manual or automated systems within DoD which authorize, record, classify, analyze, and report on financial management information. Accounting books and records include both active and historical records. Entitlement systems, defined below, are not considered the accounting books and records.

2. Administratively Complete. The cognizant Contracting Officer has determined that all contract closeout actions listed in Federal Acquisition Regulations (FAR) 4.804-5(a)(1) through (a)(14) have been accomplished.

3. Balance, either positive or negative, less than \$100,000. The legislative requirement that the unreconciled financial balance, either positive or negative, be less than \$100,000 is determined at the contract-level, as determined by a review of the active and historical accounting books and records. Under these procedures, if accounting books and records are no longer available, the contract is not eligible for closeout under these procedures.

4. Entitlement System. The system that calculates and/or validates amounts owed to vendors.

5. Financial Account. All funding under a single contract.

6. Settle a Financial Account. Upon authorization by the Secretary of Defense (or authorized designee), any adjustments to the financial records, including charging payments under the contract to an unobligated balance in an appropriation available for funding that contract, or to any current appropriation that is available to DoD for funding contracts for the procurement of the same or similar property or services.

7. Unreconciled Balance. The unreconciled balance is the financial balance in the accounting system books and records. As discussed in the definition of accounting

books and records (above), entitlement systems are not considered accounting books and records for the purposes of determining the unreconciled balance on a contract.

F: Responsibilities

1. On behalf of the DoD, Defense Finance and Accounting Service (DFAS)  
will:

- a. act as the lead in establishing, collecting, tracking, and maintaining a centralized database of contracts eligible for closeout under the provisions of the Section 804 legislation.
- b. identify contracts within its entitlement and accounting systems that may be eligible for closeout under the provisions of Section 804 legislation, as amended.
- c. coordinate with each military component or DoD agency operating a contract payment entitlement system to identify and capture eligible contracts in the centralized database.
- d. coordinate and facilitate the identification, collection, and tracking of information from the component accounting offices, component payment/entitlement system offices, component contracting commands, Defense Contract Management Agency (DCMA), and other entities, as necessary.
- e. disseminate database information related to the universe of eligible contracts identified from the entitlement systems to the military component and defense agencies.
- f. ensure the integrity and security of information in the database.
- g. collect and submit the contract closeout package (discussed in Section G of these procedures) that supports closeout of the contract in accordance with the legislation.
- h. upon receipt of the OSD written authorization to settle the financial accounts, make necessary adjustments to the financial records, update the centralized database, and maintain documentation to support such adjustments.
- i. calculate estimated cost avoidance realized by DFAS that result from settling the financial accounts under the contract versus performing a contract reconciliation.

j. work with the OSD Performance Measurement and Evaluation (PM&E) Office in developing a performance metric to monitor and report progress in settling the financial accounts under the contracts and track the estimated cost avoidance resulting from settlement versus performing contract reconciliations.

2. The DoD or Service Component Entitlement Offices will:

a. identify contracts within its entitlement systems that may be eligible for settlement of the financial accounts under the provisions of Section 804 legislation, as amended, regardless of the contract-level balance.

b. provide information for contracts identified in paragraph F.2.a. above in the DFAS-managed centralized database.

c. upon receipt of the OSD written authorization to settle the financial accounts, adjust the financial records in the entitlement system, maintain documentation to support such adjustments, and coordinate with DFAS to update the centralized database.

d. calculate estimated cost avoidance resulting from settling the financial accounts under the contract versus performing the contract reconciliation.

e. complete all data fields in the DFAS-managed centralized database that are identified for completion by entitlement offices.

3. The Component Comptroller's Office will:

a. identify all contracts within its accounting system books and records that may be eligible for closeout under the provisions of Section 804 legislation and add them to the DFAS-managed centralized database, as necessary.

b. provide information to DFAS concerning out-of-balance conditions involving multi-funded contracts

c. using active and historical accounting system books and records, determine the financial balance for contracts in the centralized database for which they are cognizant, then record the balance in the database.

d. certify the financial balance in the accounting system books and records in a manner as prescribed by DFAS.

e. upon receipt of OSD written authorization to settle the financial accounts, adjust the financial records in the accounting system, maintain documentation to support such adjustments, and update the centralized database.

f. complete all data fields in the DFAS-managed centralized database that are identified for completion by accounting offices.

4. The DCMA or other cognizant Component Contracting Activity will:

a. determine if the contracts identified in the centralized database are administratively complete and record that finding in the database.

b. maintain contract records and/or systems support for its determination that the contract is administratively complete. Examples of acceptable documentation include a statement from the Administrative Contracting Officer (ACO) that all required contract administration actions have been fully and satisfactorily accomplished, the ACO's annotation on Defense Logistics Agency (DLA) Form 1797, Department of Defense (DD) Form 1593, DD Form 1594, or in the Mechanization of Contract Administration Services (MOCAS) ACO Notebook that states all required contract administration actions have been fully and satisfactorily accomplished, or other documents that reflect the contract is administratively complete.

c. certify the contracts are administratively complete in a manner as prescribed by DFAS.

d. upon receipt of OSD written authorization to settle the financial accounts, coordinate any contract closeout actions with DFAS.

e. complete all data fields in the DFAS-managed centralized database that are identified for completion by the contracting offices.

5. The DFAS Internal Review Component/Cognizant Internal Review Directorate will:

- a. statistically validate and confirm in writing that contracts identified as eligible for settlement of the financial accounts meet the requirements set out in these procedures, prior to submission to the Secretary of Defense (or authorized designee) for settlement authorization.
- b. periodically perform reviews of compliance with these procedures, applicable legislation, DoD Financial Management Regulations (FMR), and other relevant rules and regulations, as necessary, and report any adverse findings, conclusions, and recommendations to the Office of the Under Secretary of Defense (Comptroller).
- c. complete all data fields in the DFAS-managed centralized database that are identified for completion by internal review offices.

6. The Secretary of Defense (or authorized designee) will authorize the settlement of the financial accounts in accordance with Section 804 of the NDAA for FY 2004, as amended.

G. Procedures to Obtain Authorization to Settle Financial Accounts

1. DFAS will prepare and submit a package that, at a minimum, contains the following:
  - a. Documentation that the contract was entered into by the Secretary or the Secretary of a military department or defense agency before October 1, 1996.
  - b. Certified documentation that the balance in the accounting system books and records is, either positive or negative, less than \$100,000.
  - c. Documentation that the contract is administratively complete in accordance with the requirements in FAR 4.804-5(a)(1) thru (a)(14).
  - d. For multi-funded contracts, DFAS will ensure that all accounting entities have provided information related to the financial balance reflected in its accounting books and records.



2. The DFAS Internal Review Component. DFAS Internal Review will statistically validate that contracts identified as eligible for settlement of the financial accounts meet the requirements set out in these procedures, prior to submission to the Secretary of Defense (or authorized designee) for authorization, and confirm in writing that they performed the agreed-upon procedures on the attached form entitled "Certification of Special Temporary Contract Closeout Authority."

3. Director, DFAS. The Director, DFAS (or authorized designee) will review the package to ensure the contract(s) meets the requirements for settlement of its financial accounts under Section 804 of the NDAA for FY 2004, as amended, and will certify agreement on the attached form entitled "Certification of Special Temporary Contract Closeout Authority." DFAS should submit the packages and certification to the OUSD(C)/Chief Financial Officer no later than September 1, 2006. DFAS also will provide copies of the signed certification form, with the attached list of contracts, when applicable, to the DFAS Internal Review (IR) Directorate or cognizant Component Internal Review Directorate.

4. The Office of the Secretary of Defense. The Secretary of Defense (or authorized designee) will review the package to ensure the contract(s) meets the requirements for settlement of its financial accounts under Section 804 of the NDAA for FY 2004, as amended, and will authorize adjustments to the financial accounts on the attached form entitled "Certification of Special Temporary Contract Closeout Authority." The Secretary of Defense's (or authorized designee's) signature authorizes the components to make adjustments to the accounting and entitlement books and records. The approval authority will return the packages and a copy of the signed certification to the Director, DFAS, who will disseminate the authorization to DFAS, DCMA, cognizant Internal Review office, and/or component representatives for action.

#### H. Procedures for Settling Financial Accounts

1. Accounting Books and Records. Upon authorization from OSD to settle the financial accounts, the cognizant accounting office identified in the centralized database shall close the accounting records using the following rules:

a. Fund the Negative Unliquidated Obligation (NULO) using an unobligated balance in an appropriation available for funding the contract at issue.

b. If unable to fund the NULO using an unobligated balance in an appropriation available for funding the contract at issue, use an unobligated balance in a current appropriation that is available to the DoD for funding contracts for the procurement of the same or similar property or service.

i. immediately inform the fundholder the amount of funding required;

ii. request that the fundholder fund the NULO within 10 calendar days of notice. This request shall be documented in writing.

2. Entitlement System Books and Records. The cognizant office responsible for records in its entitlement system shall settle the financial accounts in a manner that will not affect the accounting system books and records.

**CERTIFICATION OF ELIGIBILITY FOR SETTLEMENT  
SPECIAL TEMPORARY CONTRACT CLOSEOUT AUTHORITY**

Section 804 of Public Law 108-136, as amended by Section 852 of Public Law 108-375, allows for the Secretary of Defense to authorize the settlement of any financial account for a contract entered into by the Secretary or a Secretary of a military department before October 1, 1996, that is administratively complete, if the financial account has an unreconciled balance, either positive or negative, that is less than \$100,000.

**“The DFAS Internal Review Component performed the agreed-upon procedures that statistically validate that the contract(s) identified herein are eligible for settlement.”**

\_\_\_\_\_  
Printed or Typed Name  
DFAS Internal Review Component

\_\_\_\_\_  
Signature/Date

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**“We certify that contract no. \_\_\_\_\_  
(or the attached listing of contracts dated \_\_\_\_\_) meets the  
requirements for the settlement of financial accounts as set forth in Section  
804 of Public Law 108-136, as amended.”**

\_\_\_\_\_  
Printed or Typed Name  
DFAS Director (or designee)

\_\_\_\_\_  
Signature/Date  
DFAS Director (or designee)

\_\_\_\_\_  
Printed or Typed Name  
OSD(Comptroller) or Designee

\_\_\_\_\_  
Signature/Date  
OSD(Comptroller) or Designee

**CERTIFICATION OF FINANCIAL BALANCE  
SPECIAL TEMPORARY CONTRACT CLOSEOUT AUTHORITY**

Section 804 of Public Law 108-136, entitled Special Temporary Contract Closeout Authority, as amended by Section 852 of Public Law 108-375, allows the Secretary of Defense to settle any financial account for a contract entered into by the Secretary or the Secretary of a military department before October 1, 1996, that is administratively complete, if the financial account has an unreconciled balance, either positive or negative, less than \$100,000.

Under DoD procedures established to implement this legislation, the financial balance in the accounting system books and records determines if the contract meets the requirements for closeout. The accounting books and records are defined as the manual or automated systems within DoD which authorize, record, classify, analyze, and report on financial management information. For purposes of closing contracts under this legislation, Entitlement (Disbursement) Systems are not considered accounting books and records.

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**“The financial balance on contract no. \_\_\_\_\_,  
as determined by a review of the accounting system books and records, is  
\_\_\_\_\_ (documentation attached) and, therefore, the contract is  
eligible for settlement under the provisions of Section 804 of Public Law  
108-136, as amended.”**

\_\_\_\_\_  
Printed or Typed Name

\_\_\_\_\_  
Printed or Typed Title

\_\_\_\_\_  
Department/Agency

\_\_\_\_\_  
Field Office/Division Name

\_\_\_\_\_  
Accounting (Fiscal) Station No.

\_\_\_\_\_  
Signature/Date

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**“DFAS has determined that the total financial balance on contract no.  
\_\_\_\_\_, as reflected in the accounting system books and  
records, is \_\_\_\_\_.”**

\_\_\_\_\_  
Printed or Typed Name  
DFAS ABL Director (or designee)

\_\_\_\_\_  
Signature/Date