

## Contract Administration

# Activity 51: Closeout

*Procedures for verifying complete contract compliance before the Government processes closeout documentation.*

**Related Flow Charts:** [Flow Chart 51](#)

Tasks	FAR Reference(s)	Additional Information
1. Verify that the contract is physically completed.	FAR 4.804-4 Physically completed contracts [closeout of contract files]. FAR 4.804-5 Procedures for closing out contract files.	A contract is considered to be physically completed the Government has given the contractor a notice of complete contract termination or when: <ul style="list-style-type: none"><li>• The contractor has completed the required deliveries and the Government has inspected and accepted the supplies;</li><li>• The contractor has performed all services and the Government has accepted these services; and</li><li>• All option provisions, if any have expired.</li></ul> Rental, use, and storage agreements are considered to be physically completed when: <ul style="list-style-type: none"><li>• The Government has given the contractor a notice of complete contract termination; or</li><li>• The contract period has expired.</li></ul>

Tasks	FAR Reference(s)	Additional Information
<p>2. Verify that documents and clearances required for contract closeout have been received.</p>	<p>FAR 4.804-5 Procedures for closing out contract files.</p>	<p>Ensure that the following documents have been received:</p> <ul style="list-style-type: none"> <li>• Contractor’s final invoice;</li> <li>• Contractor’s closing statement and/or release of claims;</li> <li>• Final patent report and clearance;</li> <li>• Final royalty report and clearance;</li> <li>• Plant clearance report;</li> <li>• Property clearances; and</li> <li>• Closeout audit report.</li> </ul>
<p>3. Confirm that there are no unresolved issues that preclude contract closeout.</p>	<p>FAR 4.804-1 Closeout by the office administering the contract.  FAR 4.804-5(a) Procedures for closing out contract files.</p>	<p>The administrative closeout procedures must ensure</p> <ul style="list-style-type: none"> <li>• Disposition of classified material is completed;</li> <li>• Final patent report is cleared. If a final patent report is required, the contracting officer may proceed with contract closeout in accordance with the following procedures, or as otherwise prescribed by agency procedures: <ul style="list-style-type: none"> <li>○ Final patent reports should be cleared within 60 days of receipt.</li> <li>○ If the final patent report is not received, the contracting officer must notify the contractor of the contractor’s obligations and the Government’s rights under the applicable patent rights clause, in accordance with FAR 27.303. If the contractor fails to respond to this notification, the contracting officer may proceed with contract closeout upon consultation with the agency legal counsel responsible for patent matters regarding the contractor’s failure to respond.</li> </ul> </li> <li>• Final royalty report is cleared;</li> <li>• There is no outstanding value engineering change proposal;</li> </ul>

Tasks	FAR Reference(s)	Additional Information
		<ul style="list-style-type: none"> <li>• Plant clearance report is received;</li> <li>• Property clearance is received;</li> <li>• All interim or disallowed costs are settled;</li> <li>• Price revision is completed;</li> <li>• Subcontracts are settled by the prime contractor;</li> <li>• Prior year indirect cost rates are settled;</li> <li>• Termination docket is completed;</li> <li>• Contract audit is completed;</li> <li>• Contractor’s closing statement is completed;</li> <li>• Contractor’s final invoice has been submitted; and</li> <li>• Contract funds review is completed and excess funds deobligated.</li> </ul> <p>Do not close the contract if:</p> <ul style="list-style-type: none"> <li>• It is in litigation or under appeal; or</li> <li>• In the case of termination, not all termination actions have been completed.</li> </ul>

Tasks	FAR Reference(s)	Additional Information
<p>4. If the contract appears to be physically complete, determine if quick-closeout procedures are appropriate.</p>	<p>FAR 4.804-1(b) Closeout by the office administering the contract.  FAR 42.703-1(c) Policy [indirect cost rates].  FAR 42.708 Quick-closeout procedures.</p>	<p>Quick-closeout procedures should be used, when appropriate, to reduce administrative costs and to enable deobligation of excess funds. The quick-closeout procedure may be used when:</p> <ul style="list-style-type: none"> <li>• The contract, task order, or delivery order is physically complete;</li> <li>• The amount of unsettled direct costs and indirect costs to be allocated to the contract, task order, or delivery order is relatively insignificant. Cost amounts will be considered relatively insignificant when the total unsettled direct costs and indirect costs to be allocated to any one contract, task order, or delivery order does not exceed the lesser of: <ul style="list-style-type: none"> <li>○ \$1,000,000; or</li> <li>○ 10 percent of the total contract, task order, or delivery order amount;</li> </ul> </li> <li>• A risk assessment and determines that the use of the quick-closeout procedure is appropriate. The risk assessment is to include: <ul style="list-style-type: none"> <li>○ Consideration of the contractor’s accounting, estimating, and purchasing systems;</li> <li>○ Other concerns of the cognizant contract auditors; and</li> <li>○ Any other pertinent information, such as, documented history of Federal Government approved indirect cost rate agreements, changes to contractor’s rate structure, volatility of rate fluctuations during affected periods, mergers or acquisitions, special contract provisions limiting contractor’s recovery of otherwise allowable indirect costs under cost reimbursement or time-and-materials contracts; and</li> </ul> </li> <li>• Agreement can be reached on a reasonable estimate of allocable dollars.</li> </ul>

Tasks	FAR Reference(s)	Additional Information
5. If quick-closeout procedures are not appropriate, initiate final payment to or collection of overpayments from the contractor.	FAR 4.804-5(a) Procedures for closing out contract files.	Ensure that the contractor has been paid for all work delivered or performed and accepted by the Government in accordance with the provisions of the Prompt Payment Act. Include in the contract file documentation to verify that the final invoice has been paid.
6. Upon receipt of the contractor's indirect cost proposal, determine which procedure to use to establish final indirect cost rates.	<p>FAR 4.804-1(a)(3) Closeout by the office administering the contract.</p> <p>FAR 4.804-5(a)(10) Procedures for closing out contract files.</p> <p>FAR 42.703-1(c) Policy [indirect cost rates].</p> <p>FAR 42.705-1(a) Applicability and responsibility [contracting officer determination procedure].</p> <p>FAR 42.705-2(a) Applicability and responsibility [auditor determination procedure].</p>	<p>The two methods of establishing final indirect cost rates are the:</p> <ul style="list-style-type: none"> <li>• Contracting officer determination procedure; and</li> <li>• Auditor determination procedure.</li> </ul>
7. Request an audit of the contractor's final incurred cost proposal by the Defense Contract Audit Agency (DCAA).	<p>FAR 42.705-1(b)(1) Procedures [contracting officer determination procedure].</p> <p>FAR 42.705-1(b)(1) Procedures [contracting officer determination procedure].</p> <p>FAR 42.705-2(a) Auditor determination procedure.</p> <p>Defense Contract Audit Agency Contract Audit Manual, Chapter 6-1003—Responsibility for Examination and Approval of Reimbursement Vouchers.</p>	<p>Once a proposal has been determined to be adequate for audit in support of negotiating final indirect cost rates, the auditor will audit the proposal and prepare an advisory audit report, including a listing of any relevant advance agreements or restrictive terms of specific contracts.</p> <p>Under the contracting officer determination procedure, this advisory report is prepared for the contracting officer or cognizant federal agency official.</p> <p>Under the auditor determination procedure, this advisory report is only forwarded to the contracting officer—or cognizant federal agency official identified in the Directory of Contract Administration Services Components (see FAR 42.203)—when the auditor and contractor are unable to reach agreement on indirect costs.</p>

Tasks	FAR Reference(s)	Additional Information
<p>8. When using the contracting officer determination procedure, the contracting officer must conduct negotiations. Under the auditor determination procedure, the auditor is responsible for seeking agreement on indirect costs with the contractor.</p>	<p>FAR 42.705-1(b)(5)(i) Procedures [contracting officer determination procedures].</p> <p>FAR 42.705-2(b)(2) Procedures [auditor determination procedure].</p>	<p>Under the contracting officer determination procedure, the contracting officer (or cognizant federal agency official) is to head the government negotiating team, which includes the cognizant auditor and technical or functional personnel as required. Contracting offices having significant dollar interest must be invited to participate in the negotiation and in the preliminary discussion of critical issues. Individuals or offices that have provided a significant input to the Government's position should be invited to attend.</p> <p>The government negotiating team must develop a negotiation position. The contracting officer cannot resolve any questioned costs until obtaining:</p> <ul style="list-style-type: none"> <li>• Adequate documentation on the costs; and</li> <li>• The contract auditor's opinion on the allowability of the costs.</li> </ul> <p>Whenever possible, invite the contract auditor to serve as an advisor at any negotiation or meeting with the contractor on the determination of the contractor's final indirect cost rates.</p>
<p>9. If using the contracting officer determination procedure, prepare a written indirect cost rate agreement. Under the auditor determination procedure, the auditor is responsible for preparing the written indirect cost rate agreement.</p>	<p>FAR 42.705-1(b)(5)(ii) Procedures [contracting officer determination procedure].</p> <p>FAR 42.705-2(b)(2)(iii) Procedures [auditor determination procedure].</p>	<p>The written indirect cost rate agreement must conform to the requirements of the contract.</p> <p>Under the auditor determination procedure, the agreement must be signed by the contractor and the auditor.</p>

Tasks	FAR Reference(s)	Additional Information
<p>10. When using the contracting officer determination procedure, prepare a negotiation memorandum.</p>	<p>FAR 42.705-1(b)(5)(iii) Contracting officer determination procedures.</p>	<p>The negotiation memorandum should cover:</p> <ul style="list-style-type: none"> <li>• The disposition of significant matters in the advisory audit report;</li> <li>• Reconciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement as well as the disposition of period costing or allocability issues;</li> <li>• Reasons why any recommendations of the auditor or other Government advisors were not followed; and</li> <li>• Identification of certified cost or pricing data submitted during the negotiations and relied upon in reaching a settlement.</li> </ul>
<p>11. In the event that—under the auditor determination procedure—the auditor is unable to reach agreement on final indirect costs with the contractor, upon receipt of audit report, resolve any disagreements between contractor and auditor.</p>	<p>FAR 42.705-2(b)(2)(iv) Procedures [auditor determination procedure].</p>	<p>If agreement with the contractor is not reached, the auditor is to forward the audit report to the contracting officer who will then resolve the disagreement.</p>
<p>12. Promptly distribute resulting documents.</p>	<p>FAR 42.705-1(b)(5)(vi) Procedures [contracting officer determination procedure].</p> <p>FAR 42.705-2(b)(2)(v) Procedures [auditor determination procedure].</p> <p>FAR 42.706 Distribution of documents [indirect cost rates].</p>	<p>Distribute:</p> <ul style="list-style-type: none"> <li>• Executed copies of the indirect cost rate agreement to the contractor and to each affected contracting agency;</li> <li>• Copies of the agreement for the contract files, in accordance with the guidance for contract modifications in FAR Subpart 4.2, Contract Distribution; and</li> <li>• Copies of the negotiation memorandum prepared under contracting officer determination procedures, or the audit report prepared under auditor determination, to the contracting offices and government audit offices, as appropriate.</li> </ul>

Tasks	FAR Reference(s)	Additional Information
<p>13. When using the contracting officer determination procedure, notify the contractor of the individual costs which were considered unallowable and the respective amounts of the disallowance.</p>	<p>FAR 42.705-1(b)(5)(v) Procedures [contracting officer determination procedures].</p>	
<p>14. Ensure that the contractor submits a completion invoice or voucher reflecting the settled amounts and rates within 120 days—or longer period, if approved in writing by the contracting officer—after settlement of the final annual indirect cost rates for all years of a physically complete contract.</p>	<p>FAR 42.705(c)(1) Final indirect cost rates.</p>	<p>If the contractor fails to submit a completion invoice or voucher within the time specified, the contracting officer may:</p> <ul style="list-style-type: none"> <li>• Determine the amounts due to the contractor under the contract; and</li> <li>• Record this determination in a unilateral modification to the contract.</li> </ul> <p>This contracting officer determination must be issued as a final decision in accordance with FAR 33.211.</p>
<p>15. Deobligate excess funds by executing a bilateral Standard Form (SF) 30.</p>	<p>FAR 4.804-5(a) Procedures for closing out contract files.</p>	<p>The contract administration office must review the contract funds status and notify the contracting office of any excess funds the contract administration office might deobligate.</p> <p>Keep in mind that for firm fixed price contracts there should be no excess funds to de-obligate. The contractor is entitled to bill for the total amount.</p>

Tasks	FAR Reference(s)	Additional Information
16. Prepare a contract completion statement.	FAR 4.804-5(b) Procedures for closing out contract files.	<p>Ensure that:</p> <ul style="list-style-type: none"> <li>• The contract completion statement includes the: <ul style="list-style-type: none"> <li>○ Contract administration office name and address (if different from the contracting office);</li> <li>○ Contracting office name and address;</li> <li>○ Contract number;</li> <li>○ Last modification number;</li> <li>○ Last call or order number;</li> <li>○ Contractor name and address;</li> <li>○ Dollar amount of excess funds, if any;</li> <li>○ Voucher number and date, if final payment has been made;</li> <li>○ Invoice number and date, if the final approved invoice has been forwarded to a disbursing office of another agency or activity and the status of the payment is unknown;</li> <li>○ A statement that all required contract administration actions have been fully and satisfactorily accomplished;</li> <li>○ Name and signature of the contracting officer; and</li> <li>○ Date;</li> </ul> </li> <li>• The signed original is placed in the contracting office contract file (or forwarded to the contracting office for placement in the files if the contract administration office is different from the contracting office); and</li> <li>• A signed copy is placed in the appropriate contract administration file if a contract administration office administered the contract.</li> </ul> <p>Closeout action should be completed within the time standards set in FAR 4-804-1.</p>

Tasks	FAR Reference(s)	Additional Information
17. Ensure that contractor performance evaluations have been submitted into the Contractor Performance Assessment Reporting System (CPARS).	FAR 42.15 Contractor performance information.	Instructions for submitting evaluations into CPARS are available at <a href="http://www.cpars.gov/">http://www.cpars.gov/</a> . See Activity 35: Performance Management for further discussion.
18. Dispose of the contract file.	FAR 4.805 Storage, handling, and disposal of contract files.	Dispose the contract file according to the FAR and agency guidelines.