



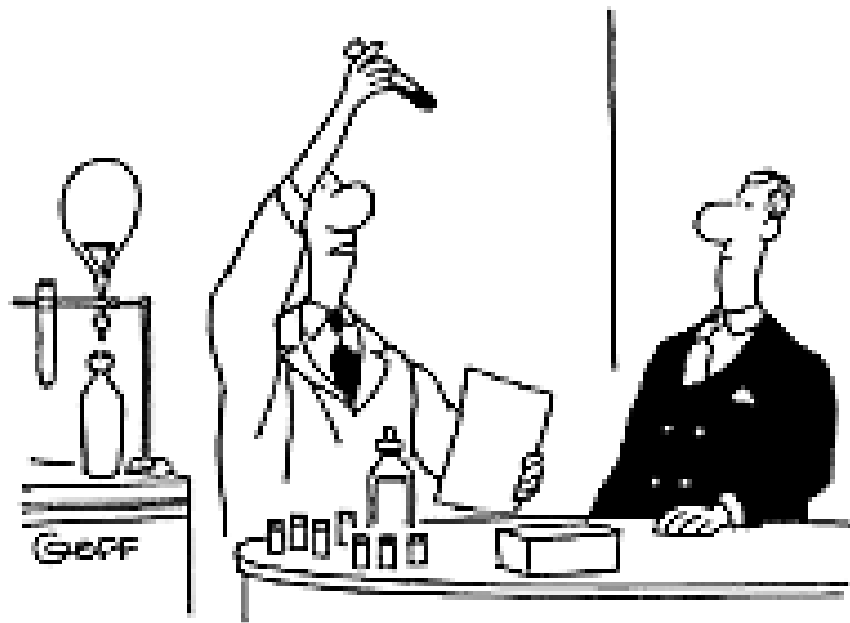
Contract Close Outs

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By: Tom Marcinko & Donna Dominguez

Contract Closeout

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"The paper and ink content is within acceptable norms, but the contract itself appears to have too many clauses."

About Aronson LLC

- Thinking ahead for clients for more than 50 years
- 225+ professionals located in Rockville, MD
- 80+ professionals dedicated to supporting government contractors
- Aronson helps clients rethink the way they approach their business through innovative, industry-specific services and advice:
 - Audit, Assurance and Tax
 - Deltek Systems and Outsourcing
 - Financial and Contract Compliance
 - GSA Schedules
- www.aronsonllc.com/blogs/fedpoint/ – News and trends and insight for today's savvy government contractor

Awards / Accolades / Affiliations



INSIDE Public Accounting Top 100

Once again, Aronson has earned a spot in the top 100 of this prestigious list, released by *INSIDE Public Accounting*. This is the longest running, most comprehensive and accurate independent analysis focusing on management and operations of America's large local, regional and national firms.

Accounting Today Top Firm

In 2013, Aronson was once again named to *Accounting Today's* list of the top 100 firms in the country. *Accounting Today* is a leading provider of online business news for the tax and accounting community.

Washington Business Journal Best Places to Work

Aronson has been recognized five times as one of the Metro area's "Best Places to Work." The award recognizes a company's achievements in creating a positive work environment that attracts and retains employees through a combination of employee satisfaction, working conditions and company culture.

Washington Business Journal Top 25

Aronson is ranked #12 on the *Washington Business Journal's* Top 25 Accounting Firms in the DC Metropolitan area.

Montgomery County Chamber Corporate Social Responsibility Award

In 2010, Aronson was honored to receive the MCCC's Corporate Social Responsibility Award based on the depth and breadth of the company's energetic commitment to support young people, in the areas of education, housing and health.

The Gazette of Politics & Business Exceptional 53 Business Award

In 2012, Aronson received the PB53 award for the third year in a row. The program acknowledges the top businesses and organizations in Maryland based on criteria that includes the company's annual revenue, employee growth, noteworthy product or service innovations, community service efforts and more.



Agenda

- Closed versus Completed Contract
- Timing
- Why
- The Closeout Process
- Quick Closeouts
- Early Closeouts
- Closing out Subcontracts
- Tips



Closed Versus Complete Contracts

A contract is physically **complete** when

- The Government has inspected and accepted all required deliveries or services, and
- All options have expired, or
- The Government has terminated the contract

Closed Versus Complete Contracts

A contract is considered **closed** when

- It is physically complete
- There are no outstanding disputes
- Government has received all required contractor certifications
- Final Payment has been received



Timing

- Government's goal is to closeout contracts within the following time frames
 - < \$150K is closed once physically complete and final payment made
 - FFP contracts within 6 months of physical completion
 - Flexibly priced contracts within 36 months of physical completion
 - All other contracts with 20 months of physical completion

Why Closeout Contracts?

From the Contractor's perspective

- Collect money due the contractor
 - Retainage
 - Indirect Rate Overruns
- Expensive to maintain records
- Clean up accounting records

Why Closeout Contracts?


From the Government's perspective

- Receipt of money due to the Government
 - Disallowed direct costs
 - Indirect Rate underruns
- Cleans up financial records
- De-obligate funding
- Limit (eliminate) future liability

The Closeout Process

Step 1

Annual Incurred
Cost Submission
(ICS) Audited




- Assess all contracts for FAR Clause 52.216-7 "Allowable Cost & Payment"
- Submit ICS no later than 6 months after year end
- Will either be deemed low risk and receive settled rate letter from CO or notification of timing of audit

The Closeout Process

Step 2

Final ICS Rate
Determination
Letter



- Receive Settled Indirect Rates Letter from ACO
- Agree and Sign & Return
- Disagree with Findings and Stated Rates – File a Claim

The Closeout Process

Step 3

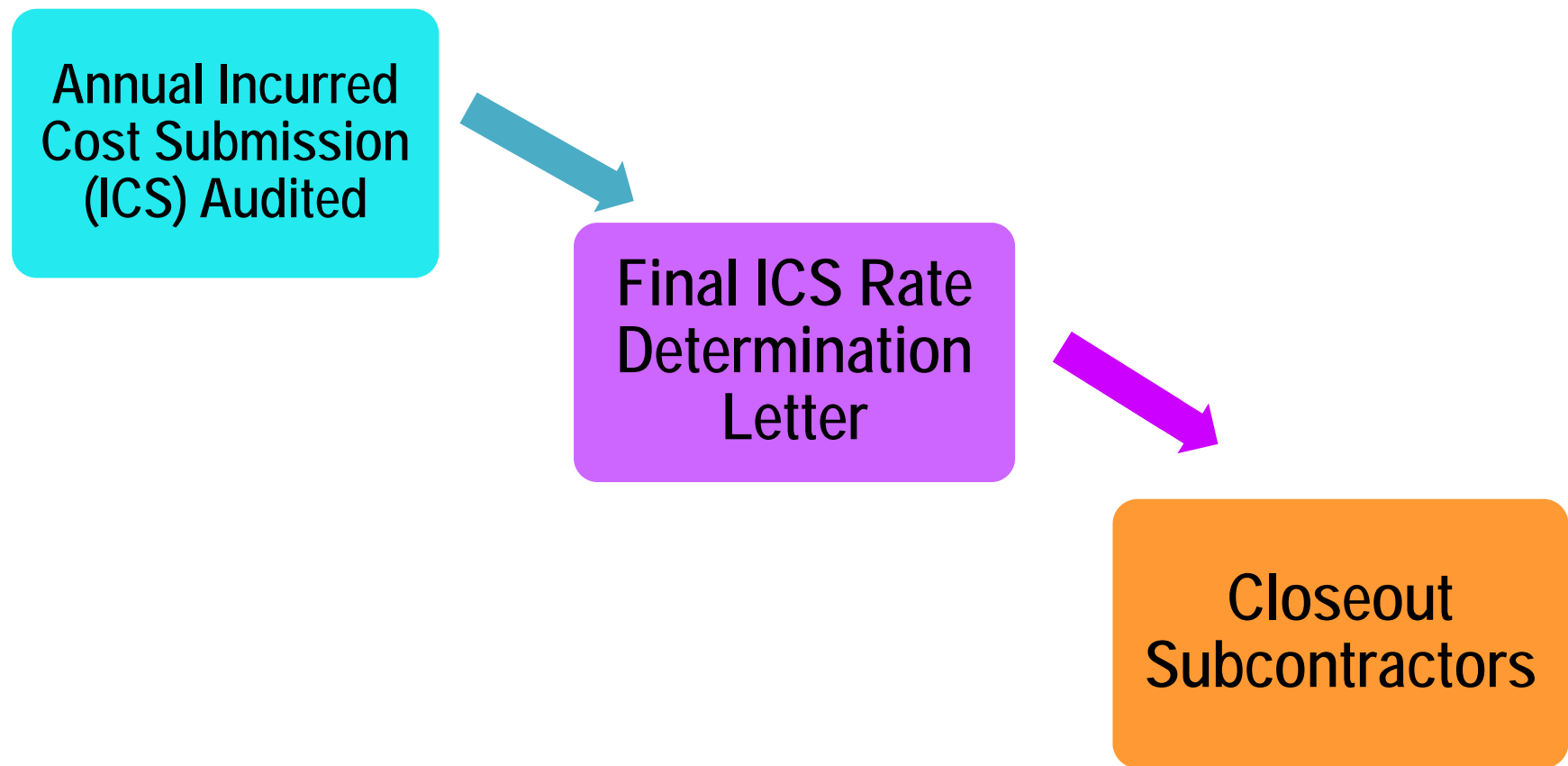
Closeout
Subcontractors



- Review Schedule I of ICS
- Assess Subcontractors and begin Subcontract Closeouts
- Enter in all Subcontractor's Final Rate Variance Invoices

The Closeout Process


Steps 1 - 3



The Closeout Process

Step 4

Prepare Final
Prime Invoice to
the Government
(within 120 days
of Letter)



- 120 Days from date of the letter to submit invoices/checks
- Prepare Prime Invoice including all Subcontractors final costs
- Include Release of Claims when appropriate

The Closeout Process

Step 5

Receive
Payment or
Make Payment
to Government




- If you owe, you **must** submit a check to the Government within 120 days
- If you are owed then you can **decide** to submit a voucher **or** zero voucher

The Closeout Process

Step 6

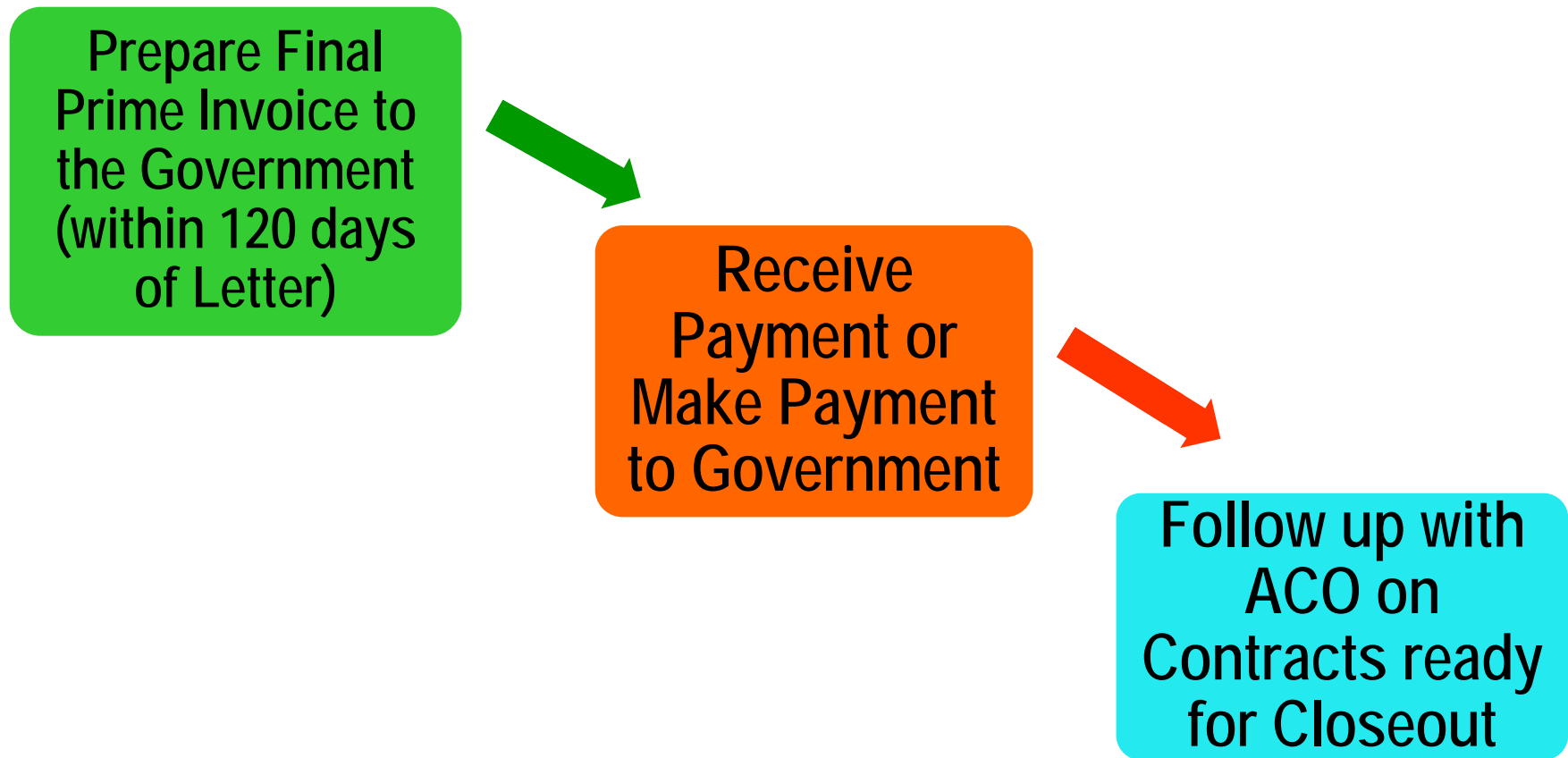
Follow up with
ACO on
Contracts ready
for Closeout



- “Local Rules”
 - Varies by Agency
 - Some Notify the Contractor
 - Other times the Contractor must take the Initiative
 - Some Agencies have locally developed forms


The Closeout Process

Steps 4 – 6



The Basic Closeout Forms

The Basic Closeout Forms



- Government Property SF1428 (52.245-1)
- Patent Report DD Form 882 (52.227-13 or 252.227-7039)
- Classified Material DD 254
- Royalty Certification (52.227-9)
- Assignment of Rebates / Refunds (52.216-7)
- Contractor's Release (52.216-7 or 52.232-7)

Quick Closeouts(FAR 42.708)

Can be used if

- The total unsettled direct and indirect costs allocable to the contract does not exceed the lesser of
 - \$1,000,000
 - 10% of the total contract value
- **Applies mainly to**
 - T&M contracts
 - Occasionally to cost reimbursement contracts with settled rates for some of the years

Quick Closeouts(FAR 42.708)

Can be used if

- The Contractor has
 - Adequate accounting, purchasing and estimating systems
 - Approved provisional rates
 - Volatility of indirect rate fluctuations
 - Stable indirect rate structure
 - Organization changes such as mergers and acquisitions
 - Special contract terms
- Agreement can be reached on allocable dollars (indirect rates)
- Agreed upon rates only apply to this contract

Quick Closeouts(FAR 42.708)

- Benefits for the Contractor
 - Avoid incurred cost submission and audit
 - Receive full retainage early
 - Financial records / files
- Quick Closeout also benefits the Government but ...
 - CO's may not agree

Early Closeout

- Applies to T&M and LH orders under IDIQ contracts
 - If contracts contains 52.232-7
 - Maybe cost reimbursement orders
- Early closeout not prohibited by the FAR
 - Task orders are not contracts

Early Closeout

Process

- Task order physically complete
- Initiated by contract term or CO notification
- Contractor submit completion voucher for the task order being closed out
 - COR certification re task order completion
 - Total unaudited allowable cost

Early Closeout

Process

- Contractor's release not required
- Contractor not entitled to retainage
- Contracting Officer must keep enough tasks open so Government has maximum retainage
- At contract completion, normal closeout procedures apply even for early closed out tasks
- Retainage protects Government even if contractor overbilled on closed out tasks

Advantages of early closeout

- Government
 - Identify and de-obligate excess funds before the funds expire
- Contractor
 - ????????
 - Funds added to other tasks

Closing out Subcontracts

- Subcontracts should be closed out before the prime contract is closed.
 - Required by FAR
 - Avoids risk of owing subcontract money that you can't recoup from Government
- The best approach to closing out subcontracts is
 - Don't award subcontracts that need to be closed out

Closing out Subcontracts

- Awarding subcontracts that need to be closed out creates two issues
 - No de-minimis exception for small subcontractors
 - The close out process is disproportionately expensive when very little money is at stake
 - Audit risk for prime contractor
 - Prime responsible for subcontract closeout / Incurred Cost Submission

Closing out Subcontracts

- Best approach (benefits both Prime & Sub) is to not award subcontracts that need to be closed out
- Allowable Cost and Payment clause is **not** a required flow down
 - Fixed Price or Labor Hour subcontracts
 - T&M with invoices provided and no or fixed MHX / G&A
 - LH CLIN with a Fixed Price ODC's CLIN

Closing out Subcontracts

- See if subcontracts qualify for a quick closeout
- Address subcontractor's close out responsibilities in the subcontract:
 - Timing
 - No invoices accepted after a certain date
 - Forms
 - Retainage
 - Training

Closeout Tips

- Submit adequate Incurred Cost Submissions on time
- Avoid issuing or accepting contracts that need to be closed out
- Assign responsibility
- Written policies



Tom Marcinko

Principal Consultant

- Mr. Marcinko is responsible for providing clients with a broad variety of both pre and post award support. Mr. Marcinko has over 30 years of government contracts experience. His experience includes proposal development, contract & subcontract administration, FAR compliance, small business programs, and Government audits.
- Mr. Marcinko has presented numerous training classes on a variety of subjects including several courses in the fundamentals of government contracting for the University of Virginia's government contracting certificate program. Mr. Marcinko has also written articles for the *National Contract Management Association* (NCMA) magazine as well as other periodicals.
- Mr. Marcinko earned his Bachelor of Science Degree in Accounting from the University of Central Florida and his law degree from the University of Florida. He is a member of the Florida Bar and the NCMA.



Donna Dominguez, Principal Consultant

Donna Dominguez is a principal consultant in Aronson LLC's Government Contract Services Group. She specializes in financial issues related to cost principles, Federal Acquisition Regulations (FAR), and select cost accounting standard (CAS) matters that affect government contractors.

She is a frequent guest speaker whose areas of specialization include:

- Incurred cost submissions
- Budgeted provisional rates
- DCAA audits
- Government compliance matters
- Cost proposals
- Contract/subcontract administration



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