

A GUIDE TO BEST PRACTICES FOR CONTRACT ADMINISTRATION

OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP)

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FOREWORD

This is the first in a series of guidebooks on best practices developed by the Office of Federal Procurement Policy. This guidebook contains best practices in contract administration that should be useful tools to program and contracting officials in administering federal contracts. The covered areas are:

Roles and Responsibilities of the Contracting Officer's Technical Representative (COTR).

Reviewing and Processing Vouchers.

Contract Closeout

These practices should not be viewed as mandatory regulatory guidance; instead they should be viewed as techniques that we hope are useful in performing the contract administration function.

As best practices are developed in other areas of contract administration, a supplement will be issued to the guidebook.

We wish to thank the procurement and program officials from the major Executive Departments and agencies, and those representatives from the private sector, who provided information on their experiences in contract administration as the basis for this guidebook.

Copies of the guidebook may be obtained from the Executive Office of the President's Publications Office by writing Office of Publications, 725 17th Street, N.W., Room 2200, New Executive Office Building, Washington, DC 20503.

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CONTRACT ADMINISTRATION

Contract Administration involves those activities performed by government officials after a contract has been awarded to determine how well the government and the contractor performed to meet the requirements of the contract. It encompasses all dealings between the government and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved. As such, contract administration constitutes that primary part of the procurement process that assures the government gets what it paid for.

In contract administration, the focus is on obtaining supplies and services, of requisite quality, on time, and within budget. While the legal requirements of the contract are determinative of the proper course of action of government officials in administering a contract, the exercise of skill and judgment is often required in order to protect effectively the public interest.

The specific nature and extent of contract administration varies from contract to contract. It can range from the minimum acceptance of a delivery and payment to the contractor to extensive involvement by program, audit and procurement officials throughout the contract term. Factors influencing the degree of contract administration include the nature of the work, the type of contract, and the experience and commitment of the personnel involved. Contract administration starts with developing clear, concise performance based statements of work to the extent possible, and preparing a contract administration plan that cost effectively measures the contractor's performance and provides documentation to pay accordingly.

Post award orientation, either by conference, letter or some other form of communication, should be the beginning of the actual process of good contract administration. This communication process can be a useful tool that helps government and contractor achieve a clear and mutual understanding of the contract requirements, helps the contractor understand the roles and responsibilities of the government officials who will administer the contract, and reduces future problems. It is helpful to have a pre-meeting with applicable program and contracting officials prior to the post award orientation conference so that there is a clear understanding of their specific responsibilities and restrictions in administering the contract. Items that should be discussed at the pre-meeting include such things as the authority of government personnel who will administer the contract, quality control and testing, the specific contract deliverable requirements, special contract provisions, the government's procedures for monitoring and measuring performance, contractor billing, voucher approval, and payment procedures.

Where appropriate, an alternative dispute resolution (ADR) technique known as "partnering" should be discussed with the contractor to help avoid future contract administration problems. Partnering is a technique to prevent disputes from occurring. It involves government and contractor management staff mutually developing a "plan for success," usually with the assistance of a neutral facilitator. The facilitator helps the parties establish a nonadversarial relationship, define mutual goals and identify the major obstacles to success for the project. Potential sources of conflict are identified, and the parties seek cooperative ways to resolve any disputes that may arise during contract performance. The process results in the parties developing a partnership charter, which serves as a roadmap for contract success. Many agencies have successfully used partnering on construction projects and are now beginning to apply these principles in the automated data processing/information resources management area.

Good contract administration assures that the end users are satisfied with the product or service being obtained under the contract. One way to accomplish customer satisfaction is to obtain input directly from the customers through the use of customer satisfaction surveys. These surveys help to improve contractor performance because the feedback can be used to notify the contractor when specified aspects of the contract are not being met. In addition, the contracting and program officials can use the information as a source of past performance information on subsequent contract awards. Customer satisfaction surveys also help to improve communications between the procurement, program, and contractor personnel.

OVERVIEW OF THE CONTRACT ADMINISTRATION PROJECT

Several weaknesses have been identified in contract administration practices used by civilian agencies. The principal problem is that contracting officials often allocate more time to awarding contracts rather than administering existing contracts. This often leads to problems in contractor performance, cost overruns, and delays in receiving goods and services. Several other deficiencies have been noted such as unclear roles and responsibilities of the contracting officer's technical representatives (COTR), excessive backlog in contract closeout and incurred costs audits, improperly trained officials performing contract oversight, unclear statements of work that hinder contractor performance, and inadequate guidance on voucher processing and contract closeout. These weaknesses were identified in reports issued by the Office of Management and Budget, namely, the "Report on Civilian Agencies Contracting Practices" (1992), the "Report on Service Contracting Practices" (1993), and the "Interagency Report on Civilian Agency Contract Administration" (1993).

The primary objective of the contract administration project is to establish best practices that agencies can use to improve contract administration to assure responsiveness to customers and best value to taxpayers. Improving contract administration practices will help to achieve excellence in contractor performance so that the government receives goods and services on time, and within budget.

A Contract Administration Team has been established to plan and carry out this project. The team conducted interviews with contracting officials in the major departments and agencies and the private

sector to gather best practices or tricks-of-the-trade that could be applicable on a governmentwide basis. Also, guidance documents that had been developed by the agencies and the private sector were reviewed to help develop the best practices included in this guidebook.

Best Practices are defined as techniques that agencies may use to help detect and avoid problems in the acquisition, management, and administration of contracts. Best practices are practical techniques gained from practical experience that may be used to improve the procurement process.

Although several weaknesses have been identified as mentioned above, this guidebook provides best practices in three areas of contract administration: clarifying the COTR's roles and responsibilities, improving methods of processing contract vouchers and invoices, and improving procedures for closing contracts.

Matrixes have been developed that state the concerns surrounding these three areas, with suggested best practices that can be used to help address them.

CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE

(COTR)

The government is becoming increasingly aware of the importance of proper contract administration in ensuring the maximum return on our contract dollars. The COTR plays a critical role in affecting the outcome of the contract administration process.

The technical administration of government contracts is an essential activity. It is absolutely essential that those entrusted with the duty to ensure that the government gets all that it has bargained for must be competent in the practices of contract administration and aware of and faithful to the contents and limits of their delegation of authority from the contracting officer. The COTR functions as the "eyes and ears" of the contracting officer, monitoring technical performance and reporting any potential or actual problems to the contracting officer. It is imperative that the COTR stay in close communication with the contracting officer, relaying any information that may affect contractual commitments and requirements.

The COTR's contract administration duties can be simple or complex and time-consuming, depending on the type of contract, contractor performance, and the nature of the work. Minimizing the use of cost-reimbursement contracts and relying more on fixed price performance based contracts should reduce the amount of resources and time devoted to contract administration. For example, a fixed-price contract requires less surveillance by the COTR than a cost-reimbursement contract requires with its technical surveillance and auditing of cost-requirements.

Agencies and departments have many different phrases to describe the COTR. Other titles used are:

Contracting Officer Representative (COR), Government Technical Representative (GTR), and Government Technical Evaluator (GTE). For purposes of this guidebook, COTR is being used, as it is the most common title for this function.

CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE

(COTR)

CONCERNS	BEST PRACTICES
Lack of training on COTR duties.	<p>Establishing a COTR training and certification program is a well balanced approach that prepares the COTR to perform the job and also strengthens contract administration.</p> <p>Many agencies have a mandatory COTR training program. Although some may not, their COTRs still attend a basic COTR course; procurement ethics training; refresher COTR training; and Procurement Integrity training.</p> <p>COTRs are encouraged to keep pace with changes in procurement by completing a minimum of eight additional hours of contract administration training every three years, preferably through a refresher COTR training course.</p> <p>Courses in service contracting and preparing statements of work are very helpful for COTRs who handle complex contracts and service contracts; it helps them in the preparation of the contract administration plan.</p> <p>In addition to the general training on COTR duties, many agencies have their contracting officers and the COTR review the contract in detail and concur on the specific oversight approach for the contract.</p> <p>To emphasize the importance of the COTR role, some agencies conduct Executive Seminars to train the COTR's supervisors.</p>

Lack of training on COTR duties.
(CONTINUED).

An example of a unique COTR certification program is one that correlates the amount of training to the dollar value and complexity of contracts:

- The **first** level is a minimum of 16 hours of training for those COTRs who handle contracts of relatively low complexity and low contract management risk. The contracts are for dollar values of \$1,000,000 or less and are fixed-price type or straight-forward cost-type contracts.

- The **second** level is a minimum of 40 hours of training for those COTRs who handle contracts of moderate to high complexity and contract management risk. The contracts are for dollar values greater than \$1,000,000 and cost-type contracts, specifically those that have award fee, incentive fee or other complex contracts.

- The **third** level is a minimum of 40 hours in addition to project management training for those COTRs who handle major systems contracts.

After the COTR certification process is completed, some agencies conduct a formal ceremony to present the certificate and acknowledge the importance of the COTR in monitoring contractor performance. A special emblem may be provided to the COTR indicating the specific area in which he/she has been certified.

Lack of a well-defined relationship between the contracting officer and the COTR.

A partnership between the COTR and the contracting officer is essential to establishing and achieving contract objectives because these two officials are responsible for ensuring that the contracting process is successful.

Some agencies have developed a joint partnership agreement that is signed during the preaward phase which defines how the parties will work together. The agreement will contain milestones for the various actions to be taken by each party. In some cases, daily meetings between the COTR and the contracting officer are required.

Lack of a well-defined relationship between the contracting officer and the COTR. (CONTINUED).

It is essential that the program personnel and the procurement office work as a team. In many agencies, this is accomplished by contracting officers attending training with the COTR and discussing relevant questions and concerns about the contract. In other agencies, the teamwork concept is enhanced by designating the COTR early in the process which helps the COTR to become familiar with the program requirements and assist the contracting officer in developing the contract administration plan and the statement of work.

In an effort to help the contracting process work better and foster teamwork, the COTR should ensure that the contracting officer understands the program mission. In some cases, the COTR could invite the contracting officer to accompany him/her to meetings, conferences, and inspections so that the contracting officer can become familiar with the program requirements. Also this affords other field program personnel an opportunity to meet the contracting officer.

The COTR should furnish to the contracting officer a copy of government-contractor conference reports and correspondence in order to keep the contracting officer up-to-date on contractor performance.

The COTR should be identified as the primary focal point for the customers to call concerning contractor performance. The COTR should also provide the customers with a copy of contract requirements.

An example of a relationship that may exist between the procurement office and the program office is where the contracting officer works for and reports directly to the program manager. The program manager has full authority for fulfilling the requirements of the contract with the client. The contracting officer may be viewed as a facilitator to ensure that good contracting principles are adhered to while achieving the program's goals.

Undefined COTR roles and responsibilities.

Some COTRs view their job as a "plum assignment" because they know their judgement is critical to the success of the program requirements obtained through contracts. It is essential that program offices designate technically competent people with specialized qualifications and expertise as COTRs.

The COTR is nominated in writing by the program organization, and notified by letter written and signed by the contracting officer. In turn, the COTR acknowledges acceptance by signing and returning a copy of the designation letter to the contracting officer.

The COTR letter should define the COTR's role and list specific duties and tasks, including tasks that should not be performed. The letter can be tailored specifically for each contract by listing specific duties and tasks relevant to that contract. The COTR letter can be signed by the COTR's supervisor to indicate that he or she recognizes and accepts the demands on the COTR's performance. A copy of the letter should be provided to the project officer and the contractor so they will understand clearly the COTR's roles and responsibilities.

The COTR can be designated in writing in the contract schedule. Some agencies specify the COTR's name and duties in Section G, Contract Administration, of the contract.

Some agencies have inserted a "Technical Direction" clause which establishes the scope of the COTR's responsibilities in relation to the contractor in their contracts. The clause further defines the role of the COTR during contract performance.

As a result of lessons learned from contracting officials, COTRs should be responsible for the following:

Developing a cost effective contract administration plan.

Following the plan to monitor contract performance.

<p>Undefined COTR roles and responsibilities. (CONTINUED).</p>	<p>Informing the contracting officer of any technical or contractual difficulties encountered during performance in a timely manner.</p> <p>Informing the contractor of failures to comply with technical requirements of the contract or to show a commitment to customer satisfaction, particularly if the contractor does not make corrections.</p> <p>Coordinating site entry for contractor personnel, if applicable.</p> <p>Evaluating proposals for and participating in negotiation of changes, modifications, and claims at the request of the contracting officer.</p> <p>Maintaining a file that would contain the following: contract and any modifications, all contract correspondence, inspections, records, memos and conversations with the contractor, invoices/vouchers, COTR appointment letter, and trip reports.</p> <p>Performing final inspection/acceptance of all final work required under the contract, including the review/approval of reports.</p>
<p>Undefined limitations of authority.</p>	<p>COTRs are responsible for understanding the contract terms and conditions and knowing the scope and limitations of their authority. COTRs are encouraged to contact the contracting officer for guidance if they are unclear about their authority or any aspects of the contract.</p> <p>Some agencies specify in Section G, Contract Administration, of the contract, information on the COTR's limitation of authority.</p> <p>As a result of lessons learned from contracting officials, COTRs should avoid the following:</p> <p>Awarding, agreeing to, modifying, increasing the scope and dollar value of, or signing any contract.</p> <p>Making commitments or promises (oral or written) to any contractor.</p>

<p>Undefined limitations of authority. (CONTINUED).</p>	<p>Issuing instructions (oral or written) to a contractor to start or stop work.</p> <p>Directing changes (oral or written).</p> <p>Authorizing delivery or disposition of government-furnished property.</p> <p>Obligating the government.</p> <p>Granting deviations from or waiving any of the terms and conditions of the contract.</p> <p>Changing the period of performance.</p> <p>Authorizing subcontracting or the use of consultants.</p> <p>Authorizing the use of overtime.</p> <p>Executing a contract on behalf of the government.</p>
<p>Inadequate surveillance and monitoring of contracts.</p>	<p>The development of a contract administration plan is essential for good contract administration.</p> <p>Plan can be simple or complex but must specify what the performance outputs of the statement of work are, and describe the methodology to conduct the inspections. This saves time and resources because the COTR is not monitoring the mundane, routine portions of the contract; instead the COTR is focusing on the major outputs of the contract.</p> <p>The contract administration plan should contain a quality assurance (QA) surveillance plan as a subpart. Development of a plan is important since it provides a systematic structured method for the COTR to evaluate services and products that contractors are required to furnish. The QA plan should focus on the quality of the product delivered by the contractor and not on the steps taken or procedures used to provide that product. It includes appropriate use of pre-planned inspections, validation of complaints and random unscheduled inspections.</p>

Inadequate surveillance and monitoring of contracts.
(CONTINUED).

Enhanced monitoring of contracts can be achieved by having government quality assurance monitors, technical inspectors, and COTRs report on the contractor's technical performance. They make site visits and speak with the contractor concerning the progress of the contract. Surveillance plans are used by them on a daily basis. Random samples are drawn, and schedules of inspection made using a contract administration checklist. A sampling plan should be designed using quality standards. Monitoring should be commensurate with the criticality of the service or task and the resources available to accomplish the monitoring.

As a result of lessons learned from contracting officials who monitor cost-reimbursement contracts, the COTRs should perform a head count periodically, examine time cards and sign-in sheets, review the overtime, and maintain spreadsheets to track direct costs and expenses.

Another valuable tool in monitoring is reviewing contractor reporting requirements such as progress reports, shop plans, and blueprints which often can uncover potential cost overruns, late deliveries, and poor contractor performance.

Many agencies have found that documenting surveillance and monitoring is key to the contract administration process.

Whatever form of monitoring the government utilizes, care should be taken so that the contractor does not have just cause to cite COTR interference in its operations.

Convening quarterly meetings with top level contractor officials, agency senior procurements, and program officials to discuss the contractor's performance helps the COTR ensure that contract terms and conditions are being adhered to.

Consider the use of customer satisfaction surveys for major contracts to determine how program officials, customers, and others interacting with the contractor evaluate the contractor's performance. Some private sector firms now use customer satisfaction surveys to help assess how customers feel about the services they are receiving.

Lack of incentives.	<p>Consider giving an incentive award to the COTR of the year based on such criteria as the amount of savings achieved, quality, timeliness, minimum technical contract changes, and customer satisfaction.</p> <p>Some agencies cover COTR duties in the COTR position description and have contract administration as a critical job element in the COTR's performance evaluation. This is essential for COTRs who handle large, complex contracts, especially cost-reimbursement ones, that requires extensive surveillance.</p> <p>An agency COTR newsletter is one mechanism for promoting the accomplishments of the COTR, as well as providing information on changes in procurement laws and legislation.</p>
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VOUCHER/INVOICE REVIEW, APPROVAL, AND PROCESSING

Voucher processing is just as important as any other aspect of contract administration. Payment to the contractor for the supplies and services delivered is the government's obligation under the contract. The government expects the contractor to meet all contract requirements for quality, quantity and timeliness. The contractor expects no less of the government in meeting its obligation to timely, accurate payment for supplies and services received. A plan or process for quickly and efficiently meeting this obligation is as essential as the COTR's oversight monitoring plan.

Therefore, it is incumbent upon program, procurement, and finance officials to understand clearly their roles and responsibilities related to reviewing and processing vouchers. This will ensure that payment is only made to contractors who perform in accordance with contract terms and conditions. It is essential that these tasks are discussed with the contractor and COTR during the post award orientation conference. An important aspect of voucher review, approval, and processing is good communication between the COTR, contracting officer, and finance official to ensure that payment is made on time.

For purposes of this guidebook, the words "vouchers" and "invoices" are used interchangeably.

VOUCHER PROCESSING

CONCERNS	BEST PRACTICES

Unclear roles and responsibilities of procurement, program, and finance officials with regard to review and approval of contractor invoices and vouchers.

Although recommendation for approval is often obtained from the COTR, authority to approve or disapprove payment of vouchers and invoices is the responsibility of the contracting officer.

Creating a good working relationship between the contracting officer, the financial officer, and the COTR is key to the voucher review and approval process. This, in turn, helps agencies to comply with the Prompt Payment Act.

Reviewing the first voucher in detail with the contractor so far as format and level of detail makes the second and subsequent vouchers easier to review and process.

COTRs are in the best position to assess the reasonableness of costs and expenditures on vouchers and invoices.

COTRs must always remember that payment to a contractor implies work is progressing according to the contract; therefore, COTRs must be assured that the government is getting what it is paying for.

The COTR's recommended approval of a voucher implies that to the best of the COTR's knowledge, the nature, type, and quantity of effort or materials being expended are in general accord with the progress of work under the contract.

COTRs provide support to the contracting officer and ensure that payments are made to contractors that perform according to contract terms and conditions by monitoring contractor's performance through review of monthly reports, onsite visits, and surveillance reviews.

It may be helpful for agencies to have procedures that requires the COTR to certify on the invoices that supplies and services have been received and accepted.

<p>Unclear roles and responsibilities of procurement, program, and finance officials with regards to review and approval of contractor invoices and vouchers. (CONTINUED).</p>	<p>In some cases, the contracting officer may designate a resident DCAA auditor as the contracting officer's representative for reviewing and approving vouchers under cost-reimbursement contracts.</p> <p>Contracting and financial officials should always check the mathematical accuracy of the voucher to avoid any overpayment to the contractor.</p> <p>Financial officials should ensure that a copy of each paid voucher is returned to the contracting office for inclusion in the official contract file.</p>
<p>Inconsistent review and approval by contracting officials of vouchers for cost reimbursement contracts prior to payment.</p>	<p>More indepth review of vouchers under cost reimbursement contracts is needed to ensure that costs are not being incurred prematurely and relate to progress under the contract.</p> <p>Although agencies may have different procedures to review and approve vouchers, some agencies have successfully avoided problems by having contracting officials review each voucher.</p>
<p>Insufficient guidance to Contracting Officer's Technical Representatives (COTRs) on how to conduct voucher reviews.</p>	<p>When reviewing vouchers under cost reimbursement contracts, COTRs should check the voucher date against the contract performance period to ensure that costs are being billed for the proper timeframe, and compare the contractor's billing rates against the contract rates to ensure that indirect costs are being billed properly. These measures, along with monitoring the contractor's performance, helps the COTR determine if claimed costs are reasonable for the period covered by the voucher.</p>
<p>Insufficient guidance to Contracting Officer's Technical Representatives (COTRs) on how to conduct voucher reviews. (CONTINUED).</p>	<p>In addition, comparing the contractor's production report with any information gathered through monitoring the contractor's performance gives the COTR some indication of the contractor's workload. If the contractor reports the same workload for two different tasks, this is an indication to the COTR that something maybe wrong with the invoice and it should be discussed with the contractor.</p> <p>When reviewing vouchers under cost reimbursement contracts, the COTR should review the contractor's time cards, sign-in-sheets, and overtime records to help assess the reasonableness of direct labor costs.</p> <p>Maintaining monthly reports or spreadsheets on costs incurred</p>

	<p>against the contract amount helps the COTR monitor the contractor's expenditures under the contract.</p> <p>A checklist or some other voucher review form that includes the major cost categories (labor, travel, supplies, other direct costs, subcontract costs) may be a useful tool in reviewing vouchers to determine the reasonableness of the contractor's claimed costs. The checklist helps the reviewing official remember to check all cost categories before recommending approval of the voucher for payment.</p>
No assessment of reasonableness of direct costs when approving vouchers under cost-reimbursement contracts. (Only technical progress and product or service quality are reviewed).	Some agencies conduct a financial management review of the contractor's current invoices during contract performance. The review is conducted at the contractor's location. The review helps the agency determine if the contractor's accounting and billing systems, and internal control policies and procedures are adequate to support costs claimed on the invoice. The review, which may be

<p>Insufficient information on the voucher for thorough desk review of claimed costs to determine allowability, allocability, and reasonableness.</p>	<p>Including detailed billing instructions in the contract provides information to the contractor on how to complete vouchers and invoices properly. The instructions could provide samples of how a voucher should be prepared and submitted to the government for payment.</p> <p>When appropriate, it may be helpful to define in the contract the distinction between a completion voucher (cumulative claim and reconciliation) and a final voucher so that the contractor can provide correct information on the voucher.</p> <p>If the contractor provides its final settlement of claimed costs on the completion voucher, that voucher should be considered the final voucher.</p>
<p>Delays in processing vouchers.</p>	<p>Designating alternate COTRs and contracting officers that have authority to review and approve contractor vouchers and invoices may alleviate delays in the approval process.</p> <p>Performance measurements may be useful tools to help the finance office determine how well the agency is doing in reviewing and processing invoices/vouchers for payment in order to comply with the Prompt Payment Act.</p> <p>Prompt payment performance standards may help detect weaknesses in the process and thus improve business relationships with the contractors, and reduce costs to the government.</p>
<p>Delays in processing vouchers. (CONTINUED).</p>	<p>Tracking such performance data as the amount and number of penalty payments, the reason, number and amount of discounts taken, the number and amount of lost discounts, and late payments provide valuable information to the finance office.</p> <p>Established standards, i.e., the number of days for review and approval by the contracting officer and COTR, helps to process vouchers in a timely manner.</p> <p>If timely payment of vouchers is a problem, a dedicated person in the contracting office (normally a clerical position) may be needed to log vouchers in and out, check figures for accuracy, and assist the contracting officer, the financial officer and COTR in timely processing of vouchers and invoices.</p>

Insufficient documentation, record keeping, and tracking of invoices and vouchers.

Maintaining a voucher payment log, either manually or computerized, in the contract file helps to track the contractor's claimed costs and fee (if applicable) against contract costs and fee.

Maintaining a copy of each paid voucher in the official contract file helps to ensure proper accountability.

Establishing a separate post office box for receipt of vouchers may help to avoid delays in processing.

Automated invoice tracking systems may help to track vouchers and provide information to show if they are delinquent for payment because standards were not met.

Automated invoice tracking systems may provide such reports as: voucher status by specialist, overdue vouchers, vouchers that have been rejected, and voucher history.

Contractor support may be used, if necessary, to operate the automated invoice tracking system. Care should be taken to ensure that the contractor does not make decisions about vouchers that should be made by contracting officials.

Sending a list of names of authorized persons to sign invoices and vouchers on each contract to the finance office with periodic updates avoids delays in paying vouchers.

CONTRACT CLOSEOUT

Contract closeout begins when the contract has been physically complete, i.e., all services have been performed and products delivered. Closeout is completed when all administrative actions have been completed, all disputes settled, and final payment have been made. The process can be simple or complex depending on the contract type for cost-reimbursement contracts. This process requires close coordination between the contracting office, the finance office, the program office, and the contractor. Contract closeout is an important aspect of contract administration.

The contract audit process also affects contract closeout on cost-reimbursement contracts. Contract audits are required to determine the reasonableness, allowability, and allocability of costs incurred under cost reimbursement contracts. Although there is a preaward audit of the contractor's proposal, there is a cost-incurred audit of the contractor's claim of incurred costs and a close out audit to reconcile the contractor's final claim under the contract to incurred costs previously audited. When there is a delay in completing

the cost-incurred and closeout audits, contracting officials often can not complete the closeout process for many cost reimbursement contracts. Although the FAR does allow agencies to use quick closeout procedures (desk reviews) to close some cost reimbursement contracts without a closeout audit, inconsistencies have been noted in the use of the procedures.

It is important that contracting officials have a good working relationship with the agency's auditors and the cognizant audit agency to accomplish contract closeout under cost-reimbursement contracts.

CONTRACT CLOSEOUT BEST PRACTICES

CONCERNS	BEST PRACTICES
Lack of management attention to contract closeout.	<p>Establishing a separate closeout function within the contracting organization emphasizes the importance of contract closeout.</p> <p>The best time to concentrate on contract closeout is during the October to February timeframe when the contract placements workload may be less.</p> <p>Using contractor support may be an efficient way to accomplish contract closeout when in-house resources are limited.</p> <p>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 contracting official.</p> <p>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.</p> <p>For civilian agencies 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.</p>

	<p>Rewarding employees through incentive awards (i.e., on-the-spot cash awards) for the highest number of closeouts completed is a good motivation factor.</p> <p>Using measurements standards such as those prescribed in the FAR for closing various types of contracts helps to keep the focus on the closeout effort.</p> <p>Cross-training in contract closeout is good for contract specialists as it helps them to understand the importance of writing good contracts.</p>
Poor Management Information Systems to monitor the contract closeout process.	<p>Consider using a management information system with milestones to track contract closeout from physical completion through final payment.</p> <p>Integrating the closeout system with a word processing capability allows for automatic generation of closeouts letters which speeds up the closeout process.</p> <p>Using contractor support for data entry services may be an alternative when in-house resources are limited.</p>
Poor coordination between contracting activity, inspectors general (IG), and cognizant audit agency.	<p>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.</p> <p>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.</p> <p>Prioritizing audit requirements and communicating these requirements to the IG and the cognizant audit agency helps in projecting the audit workload.</p> <p>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.</p>

	<p>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.</p> <p>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 better to define the audit backlog, determine audit resources, and prioritize contractor locations for audits.</p>
Poor coordination between contracting activity, inspectors general (IG), and cognizant audit agency. (CONTINUED)	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.
Large backlog of unscheduled audits.	<p>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.</p> <p>Performing risk assessments to determine contractors that should be audited will help to better manage the audit workload.</p> <p>Using more fixed price contracts helps to reduce the requirements for contract audits.</p> <p>Encouraging contractors to submit their final vouchers in a timely manner avoids delays in requesting the final closeout audit under cost reimbursement contracts.</p> <p>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.</p>
Noncompliance with FAR provision for submitting Indirect Cost Rate (ICR) 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 ICRs in a timely manner should help make the closeout process easier.

Avoiding Disputes in Contract Closeout.	In construction, 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."
Lack of a specific dollar threshold for using quick closeout procedures.	<p>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.</p> <p>Knowing the contractor's history of incurred costs, billings, and performance are additional factors to be considered when establishing thresholds for using quick closeouts.</p> <p>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.</p>
Closeout documentation.	Always use a checklist and include it in the contract file when closing contracts. This helps to assure that all actions have been completed.

CONCLUSION

A good contract administration program is essential to improving contractor performance under federal contracts. The best practices that have been included in this guidebook is a first step at providing some practical guidance that should help to improve the contract administration process.

We believe that program and contracting officials need to realize the importance of good contract administration. Convening a forum to discuss these best practices may help agency components focus more attention to them and begin using them to help resolve problems they may encounter. Structuring a contracting administration program by the type of activity, e.g., contract monitoring, voucher review, contractor performance evaluation, using various levels (Level 1 - proactive, level 2 - active, and level 3 - reactive) may also help to better allocate contract administration resources so that these best practices can be useful.

In addition, giving an annual contract administration award to recognize individual and group accomplishments in contract administration highlights its important to the procurement process. Some

agencies even include contract administration as a performance goal of contracting officials as an incentive for them to do a good job in this area.

In conclusion, we hope that the best practices included in this guidebook will be useful. Suggestions for any other best practices in the three areas, in other areas of contract administration, or pertaining to the contracting process should be forwarded to:

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