



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

IMMEDIATE POLICY CHANGE

Progress Payments Based On Cost

Contracts Directorate
OPR: DCMA-AQ

DCMA-INST 102 (IPC-1)
March 6, 2015

1. POLICY. This Immediate Policy Change (IPC) implements changes to DCMA-INST 102, “Progress Payments Based On Cost,” August 20, 2013.

2. PURPOSE. This IPC incorporates DFARS updates and changes to DCMA Instructions.

3. APPLICABILITY. This IPC applies to all DCMA activities that prepare, manage, review, validate, approve, and use DCMA policies.

4. NEW GUIDANCE.

a. Change the Reference page as follows:

- (u) FAR 32.501-5(~~e~~), Other Protective Terms
- ~~(ad) DFARS PGI 204.7108, Payment Instructions~~
- ~~(aq) FAR 32.501-5, Other Protective Terms~~
- (au) DoD 7000.14-R, “~~DoD~~ *Department of Defense* Financial Management Regulations (*FMRS*), Volume 5, Chapter 10
- ~~(av) DCMA-INST 411, Bellringer Reporting,” January 29, 2013~~
- (aw) *DFARS PGI 204.7108, Payment Instructions*
- (ax) *DFARS 252.204.7006, Billing Instructions*
- (ay) *DFARS 204.7109, Solicitation Provision and Contract Clause*
- (az) *FAR 52.232-16(g), Reports, Forms, and Access to Records*
- (ba) *DCMA-INST 906, “Reporting Fraud, Waste and Abuse,” October 1, 2010*
- (bb) *DCMA-INST 1002, “Situation Report (SITREP),” May 14, 2014*
- (bc) *FAR 42.902, Procedures*

b. Paragraph 2.2.1. is changed to read: 2.2.1. ~~Determines~~ *Ascertain*s if the use of progress payments, incorporated by FAR 52.232-16 (Reference (d)) in the contract or individual delivery order, as an interim financing method is practical. *If the ACO ascertains that progress payments are not practical as written for the contract, the ACO will notify the procuring/procurement contracting officer (PCO) and functional specialist(s).*

- c. Renumber current paragraphs 2.2.3. through 2.2.8 to 2.2.4. and 2.2.9. Insert new paragraph 2.2.3. : ***2.2.3. Shall not enter into modification or negotiation of contract terms without the delegation of the PCO.***
- d. Insert new paragraph 2.3.5.: [Functional Specialist] ***2.3.5. Assists the ACO in the timely progress payment review and analysis of the contractor's corrective action response and corrective action plan (CAP), as needed.***
- e. Insert new paragraph 2.4.: ***2.4. DEFENSE CONTRACT AUDIT AGENCY (DCAA). DCAA is responsible for performing audits, providing audit assistance, and providing data regarding a contractor's financial systems as requested by the ACO.***
- f. Insert new paragraph 2.5.: ***2.5. HOST NATION AUDITOR. Host Nation is responsible for outside the continental United States (OCONUS) audits where DCAA does not have authority to act or does not have access to contractor's records; the audits described herein shall be done in accordance with higher level regulations, policy, guidance, waiver or agreements (e.g., Host Nation).***
- g. Paragraph 3.1.2.5. is changed to read: 3.1.2.5. In accordance with DCMA-INST 134 (Reference (i)), the ACO shall obtain BoR approval before entering into negotiations with the contractor to convert the contract to another form of financing. ***PCO delegation to the ACO to begin negotiations shall be part of the material presented to the BoR for review.***
- h. Paragraph 3.1.6. is changed to read: 3.1.6. Special/Specific Payment Instructions. The procuring contracting officer (PCO) ***may is required to*** include ~~special~~ payment instructions in the contract to reduce risks related to management of expenditure rates, management of canceling funds, or alignment of disbursement with actual performance. The ACO should review prime contracts (normally in Section G) and modifications to determine ~~if that~~ they contain ~~special~~/specific payment instructions. ***See paragraph 3.3., Progress Payment Request (PPR) Preparation, for further instruction.***
- i. Delete paragraph 3.1.6.1. and replace with the following: ***3.1.6.1. If DFARS PGI 204.7108(d)(1) through (d)(6) (Reference (aw)) incorporating line item specific payment instructions, or DFARS PGI 204.7108(d)(12) (Reference (aw)) incorporating non-standard payment instruction(s) are cited in the contract, DFARS 252.204-7006, "Billing Instructions" (Reference (ax)) is required in the contract per DFARS 204.7109 (Reference (ay)) because DFARS 252.204-7006 (Reference (ax)) provides a contractual requirement for cost accumulation at the contract line item level.***
- j. Paragraph 3.1.7. is changed to read: 3.1.7. Foreign Military Sales (FMS) Purchases. The ACO ensures the contractor submits separate Standard Form (SF) 1443, Contractor's Request for Progress Payment (or WAWF equivalent) for U.S. and FMS orders, and that a separate numbering system (see paragraph 3.3.1.) is maintained for the U.S. funds and the FMS funds for the life of the contract in accordance with DFARS 252.232-7002 (Reference (k)). For each submittal, the ACO obtains supporting schedules from the contractor (***FAR 52.232-16(g) (Reference (az))***) showing the breakout of cost between U.S. and FMS requirements. If more

than one country is involved, the schedule shall show a breakdown for each country for which where work is being performed. The ACO shall not authorize progress payments without this schedule. Recommend the cost breakdown include the two-letter alpha identifier for each country for use during submittal review(s).

k. Paragraph 3.1.10. is changed as follows: 3.1.10. Incrementally Funded Contracts. ~~For fixed price incentive contracts which have properly incurred costs for authorized work that exceeds the target price, the ACO may provisionally increase the billing price up to the ceiling or maximum price (if funded).~~ The ACO ensures the following:

l. Paragraph 3.1.11. is changed as follows: 3.1.11. Fixed Price Incentive Contracts. The ACO should review contract provisions regarding adjustment of profit and final contract price. *For fixed price incentive contracts which have properly incurred costs for authorized work that exceeds the target price, the ACO may provisionally increase the billing price up to the ceiling or maximum price (if funded).* Guidance regarding target price versus contract price can be found at FAR 32.501-3(a)(3) (Reference (z)).

m. Paragraph 3.2.4. is changed as follows: 3.2.4. ~~It is recommended that a MOCAS YCPM screen print of the data become part of the official electronic contract file. The ACO can retain a MOCAS YCPM screen print of the Progress Payment Master for data retention in the official electronic contract file.~~

n. Delete paragraphs 3.3.5. through 3.3.15, Table 3, and paragraph 3.3.17. Insert the new 3.3.5.: *3.3.5. The ACO should confirm PCO provided distribution/payment instructions are included in Section G of all contracts containing the progress payment clause. The distribution/payment instructions should comply with the requirements of DFARS PGI 204.7108 (Reference (aw)). The ACO shall:*

- *Issue a contract deficiency report (CDR) using the EDA-CDR tool, as described in DCMA-INST 118, “Contract Receipt and Review” (Reference (m)), paragraph 3.2.5.2., and contact the PCO if review of the contract, individual delivery order, or subsequent modifications reveal missing distribution/payment instructions or instructions not meeting content requirements of DFARS PGI 204.7108 (Reference (aw))*
- *Use all necessary means to obtain distribution/payment instructions, including elevation of the matter to supervision, in order to prevent government caused contract payment delays*
- *Amend the Progress Payment Master to read “RED-CD-US:R” to stop automatic payment (MOCAS User Guide (Reference (t))) pending incorporation or correction of the missing/erroneous instruction(s)*
- *Ensure modifications against the contract or individual delivery order do not create retroactive changes to the distribution/payment instructions*
- *Re-evaluate existing distribution/payment instructions upon receipt of a modification incorporating additional ACRNs, or additional funding to existing ACRNs, to the contract or individual delivery order and make the necessary adjustments prior to approving the next PPR*

- *Ensure contracts containing foreign military sales (FMS) meet the requirements of DFARS PGI 204.7108(c)(8) and DFARS PGI 204.7108(c)(9) (Reference (aw)) limiting disbursement/payment/liquidation to contract-wide only*
- *Provide DFAS the distribution/payment/liquidation instructions using the progress payment special instructions field (PROGPAY-INST-RQD) at the contract provisions data screen (YCU2 – 5 – 12) in MOCAS*

o. Paragraph 3.3.18. is changed to read: 3.3.18. The ACO monitors distribution of delivery payments to ensure recoupment of unliquidated progress payment funds ~~is on the same basis as the progress payment(s). For example, if the distribution instructions were to pay against ACRN AE because the ACO knows the incurred costs were related to CLIN 0002, then when CLIN 0002 is delivered, progress payments should be recouped against ACRN AE.~~ *follow the applicable distribution/payment/ liquidation instruction(s).* If DFAS does not distribute or recoup progress payments pursuant to the distribution instructions, the ACO shall promptly contact DFAS to make the appropriate adjustments in MOCAS.

p. Paragraph 3.4.1. is changed to read: 3.4.1. The ACO will determine and document *(e.g. DCMA Form 325, DCMA Form 325 equivalent, pertinent report, applicable document)* the overall capability of the contractor to perform work required by the contract/order (FAR 32.503-2(b) (Reference (ae))).

q. Paragraph 3.5.1. is changed to read: All PPRs are submitted to the ACO for approval prior to forwarding to DFAS for payment unless the post payment review box is checked putting the contract on the WAWF Post Payment Table. If a progress payment fails the initial MOCAS validation, it is returned to the ACO for corrective action. *To ensure there are no delays in payment, the ACO shall:*

3.5.1.1. Ensure the contract is in MOCAS.

3.5.1.2. Ensure the payment/recoupment rates shown in the MOCAS Provisions Data Record (Screen CT5803) are the correct/current rates for the contract/contractor.

3.5.1.3. Review the first progress payment submitted in WAWF for each contract/order wherein progress payments will be used as interim financing.

3.5.1.4. Ensure rates used for the progress payment request submitted by the contractor match the MOCAS data.

3.5.1.5. Ensure that they have created a Progress Payment Master in MOCAS.

r. Delete paragraph 3.5.2. ~~3.5.2. The ACO shall review the first process payment submitted in WAWF for each contract/order wherein progress payments will be used as interim financing.~~

s. Paragraph 3.6.3. is changed to read: 3.6.3. ~~The frequency of progress payment reviews is determined using the number of points calculated in Section B of DCMA Form 325 (or~~

~~equivalent).~~ *The ACO shall use DCMA Form 325 (or equivalent) to document evaluation of data provided by the functional specialists. The frequency of periodic reviews is determined using the number of points calculated in Section B. The MOCAS Progress Payment Master shall be updated to reflect changes in periodic review frequency (e.g., Category 1 – Low Risk = Annually; Category 2 – Moderate Risk = Bi-annually; and Category 3 – High Risk = Quarterly) and/or at the completion of all periodic or non-scheduled reviews during the life of the contract.*

t. Paragraph 3.6.10. is changed to read: 3.6.10. Based on the results of the periodic review, the ACO will determine whether to continue, suspend, or reduce payments (FAR 32.503-6 (Reference (am)) and FAR 52.232-16 (Reference (d))). The ACO will ~~support the reason~~ *document the basis* for ~~the any~~ reduction/suspension *in payments* in the ‘Comments’ field on a WAWF submission/*DCMAS contract database*, or document the contract file in the case of a paper submission, with adequate evidence. The ACO will notify the contractor and PCO/buying command in writing of the intended action. The following are some reasons for reductions/suspension:

u. Insert new paragraph 3.8.5.: *3.8.5. ACOs working in the DCMA Special Programs (DCMAS) Directorate shall track progress payment disbursements by utilizing the DCMA progress payment validation model (or equivalent). A current record of the disbursement history should be maintained in the contract file. The progress payment validation model is located on the resource Web page.*

v. Insert new paragraph 3.9.3.: *3.9.3. The ACO should be wary of fraud when reviewing progress payment requests, especially requests for large dollar amounts. Contractor irregularities shall be reported in accordance with DCMA-INST 906, “Reporting Fraud, Waste and Abuse” (Reference (ba)).*

w. Change the current paragraph number 3.9.3 to 3.9.4. and replace with the following: *3.9.4. When the ACO discovers that a contractor who is receiving progress payments has gone into bankruptcy or is experiencing financial difficulties, the ACO shall consult with DCMA legal counsel and issue a DCMA ~~Bellringer Report~~ *Situation Report (SITREP)* in accordance with ~~the process outlined in DCMA-INST 411, “Bellringer Reporting”~~ *DCMA-INST 1002, “Situation Report (SITREP)”* (Reference (bb)). The ACO shall insert an ‘S’ code in the MOCAS Progress Payment Master ‘Stop Pay Code’ field (*FAR 42.902(a)(3) (Reference (bc))*) *as necessary to protect the Government’s financial interests and Government-owned property.**

x. Delete the current paragraph 3.9.4.: ~~3.9.4. When contractors with outstanding progress payments undergo corporate restructuring or novation, the ACO must take appropriate action such as executing subordination agreements or putting appropriate language in novation agreements, to preserve the Government’s rights to progress payment inventories. The ACO coordinates the proposed actions with DCMA legal counsel.~~

5. RELEASABILITY – UNLIMITED. This IPC is approved for public release and is located on DCMA’s Internet Web site.

6. EFFECTIVE DATE. By order of the Director, DCMA, this IPC is effective immediately and shall remain in effect for 180 days from the date of signature or until rescinded, superseded, or incorporated in a DCMA policy, whichever is sooner.



Timothy P. Callahan
Executive Director, Contracts



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Progress Payments Based On Cost

Contracts Directorate
OPR: DCMA-AQCF

DCMA-INST 102
August 20, 2013

1. PURPOSE. This Instruction:

- a. Reissues and updates DCMA Instruction (DCMA-INST) 102, "Progress Payments Based On Cost" (Reference (a)).
- b. Establishes policy, assigns roles and responsibilities, and provides procedures for administration and oversight of progress payments based on costs.
- c. Complies with DoD Directive 5105.64 (Reference (b)).

2. APPLICABILITY. This Instruction applies to all DCMA Components as stated.

3. MANAGERS' INTERNAL CONTROL PROGRAM. This Instruction contains internal management control provisions subject to evaluation and testing required by DCMA-INST 710, "Managers' Internal Control Program" (Reference (c)). Flowcharts for primary processes are at Appendix A.

4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. PLAS CODE(S)

- a. Process: 145 – Progress Payment Based On Cost
- b. Programs: ACAT/Other Customers (when applicable)
- c. Other National; Training and Travel; Local Programs (when applicable)

6. POLICY RESOURCE WEB PAGE. <https://home.dcma.mil/policy/102r>

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective immediately.



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REFERENCES

- (a) DCMA-INST 102, “Progress Payments Based on Cost,” November 07, 2012 (hereby canceled)
- (b) DoD Directive 5105.64, “Defense Contract Management Agency (DCMA),” January 10, 2013
- (c) DCMA-INST 710, “Managers’ Internal Control Program,” September 12, 2011
- (d) Federal Acquisition Regulation (FAR) 52.232-16, Progress Payments
- (e) FAR Subpart 32.5, Progress Payments Based on Costs
- (f) FAR 1.603, Selection, Appointment, and Termination of Appointment for Contracting Officers
- (g) Defense Federal Acquisition Regulation Supplement (DFARS) 201.603, Selection, Appointment, and Termination of Appointment
- (h) DCMA-INST 129, “Warrants and Other Official Appointments,” December 31, 2011
- (i) DCMA-INST 134, “Boards of Review,” October 15, 2012
- (j) FAR 32.104(d), Providing Contract Financing
- (k) DFARS 252.232-7002, Progress Payments for Foreign Military Sales Acquisitions
- (l) DFARS 252.232-7004, DoD Progress Payment Rates
- (m) DCMA-INST 118, “Contract Receipt and Review,” June 25, 2013
- (n) FAR 32.113(h), Customary Contract Financing
- (o) Office of the Undersecretary of Defense, Acquisition, Technology and Logistics (AT&L) Memorandum, “Cash Flow Tool for Evaluating Alternative Financing Arrangements,” April 27, 2011
- (p) DFARS 232.501-1, Customary Progress Payment Rates
- (q) FAR 52.232-16(k), Limitations On Undefinitized Contract Actions
- (r) FAR 32.501-2, Unusual Progress Payments
- (s) FAR 32.502-4(e), Contract Clauses
- (t) MOCAS User Guide, updated March 21, 2013
- (u) FAR 32.501-5(e), Other Protective Terms
- (v) FAR 52.209-3, First Article Approval—Contractor Testing
- (w) FAR 52.209-4, First Article Approval—Government Testing
- (x) FAR 32.501-3(a)(5), Contract Price
- (y) FAR 32.503-5, Administration of Progress Payments
- (z) FAR 32.501-3(a)(3), Contract Price
- (aa) FAR 15.407-3(b), Forward Pricing Rate Agreements
- (ab) FAR 42.704, Billing Rates
- (ac) DFARS 252.232-7003, Electronic Submission of Payment Requests and Receiving Reports
- (ad) DFARS PGI 204.7108, Payment Instructions
- (ae) FAR 32.503-2, Supervision of Progress Payments
- (af) FAR 32.503-3, Initiation of Progress Payments and Review of Accounting System
- (ag) DCMA-INST 131, “Contractor Business Systems,” August 15, 2012
- (ah) DFARS 252.242-7005, Contractor Business Systems
- (ai) DFARS PGI 242-7000, Contractor Business System Deficiencies
- (aj) DCMA-INST 204, “Manufacturing and Production,” August 16, 2012
- (ak) FAR 32.503, Postaward Matters
- (al) FAR 32.503-4, Approval of Progress Payment Requests

- (am) FAR 32.503-6, Suspension or Reduction of Payments
- (an) FAR 32.6, Contract Debts
- (ao) DFARS 232.6, Contract Debts
- (ap) FAR 32.602(a), Responsibilities
- (aq) FAR 32.501-5, Other Protective Terms
- (ar) DFARS 232.503-6, Suspension or Reduction of Payments
- (as) FAR 32.503-10, Establishing Alternate Liquidation Rates
- (at) FAR 32.503-8, Liquidation Rates – Ordinary Method
- (au) DoD 7000.14-R, “DoD Financial Management Regulation”
- (av) DCMA-INST 411, “Bellringer Reporting,” January 29, 2013

CHAPTER 1

POLICY

1.1. POLICY. It is DCMA policy to ensure that:

1.1.1. Progress payments and liquidation comply with Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and contract requirements.

1.1.2. Progress payments based on cost are available as interim contract financing when contract requirements allow for their use in accordance with FAR 52.232-16 (Reference (d)) and FAR subpart 32.5 (Reference (e)).

1.1.3. Contracting officers monitor progress payments or perform sufficient oversight to ensure the Government is protected.

CHAPTER 2 RESPONSIBILITIES

2.1. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR OR DIRECTOR OF THE COST AND PRICING CENTER. The appropriate Commander or Director shall ensure:

2.1.1. Compliance with this Instruction by subordinate contracting staff.

2.1.2. Only qualified DCMA personnel meeting applicable Defense Acquisition Workforce Improvement Act (DAWIA) certification levels in their specialized technical fields manage, evaluate, and approve progress payment requests (PPR).

2.1.3. Administrative contracting officers (ACO) are warranted in accordance with FAR 1.603 (Reference (f)), DFARS 201.603 (Reference (g)), and DCMA-INST 129, “Warrants and Other Official Appointments” (Reference (h)).

2.1.4. Boards of Review (BoR) are conducted as directed when required in accordance with DCMA-INST 134, “Boards of Review” (Reference (i)).

2.2. ADMINISTRATIVE CONTRACTING OFFICER (ACO). The term ACO used in this Instruction can refer to corporate administrative contracting officer (CACO) and/or divisional administrative contracting officer (DACO). The ACO:

2.2.1. Determines if the use of progress payments, incorporated by FAR 52.232-16 (Reference (d)) in the contract or individual delivery order, as an interim financing method is practical.

2.2.2. Ensures the contractor meets the requirements of FAR 32.104(d), Providing Contract Financing (Reference (j)), when determining use of progress payments.

2.2.3. Ensures technical specialists supporting completion of the progress payment process follow FAR, DFARS, and contractual requirements.

2.2.4. Ensures Mechanization of Contract Administration Services (MOCAS) Progress Payment Master and contract data provisions are updated to reflect contract progress payment rates, distribution instructions, etc.

2.2.5. Ensures PPR are processed promptly within the CMO.

2.2.6. Has primary responsibility for validation and approval/disapproval of all progress payment requirements and/or payment requests.

2.2.7. Shall ensure use of progress payments is limited to interim financing of noncommercial firm fixed price (FFP) contracts, individual orders and/or line items.

2.2.8. Delegates Chapter 3 procedures that do not require contracting officer warrant authority to the contract administrator or procurement technician, as appropriate.

2.3. TECHNICAL SPECIALIST. The technical specialist (e.g., engineer, industrial specialist (IS)):

2.3.1. Acknowledges and properly documents all requests for technical support.

2.3.2. Performs a physical progress review using either an added/weighted value methodology or the supplier's earned value baseline to identify the value of items or services required by contract as requested by the ACO.

2.3.3. Verifies the contractor's estimate to complete (ETC) and/or develops an independent estimate at completion (IEAC) as requested by the ACO.

2.3.4. Notifies the ACO and technical team lead of degrading trends in contractor technical performance.

CHAPTER 3

PROCEDURES

3.1. REVIEW OF PROGRESS PAYMENT CONTRACT/DELIVERY ORDER REQUIREMENTS.

3.1.1. During initial review of contracts, orders, and contract modifications, the assigned ACO checks the contract for the following:

- FAR 52.232-16, Progress Payments (Reference (d))
- DFARS 252.232-7002, Progress Payments for Foreign Military Sales Acquisitions (Reference (k))
- DFARS 252.232-7004, DoD Progress Payment Rates (Reference (l))

3.1.2. The ACO verifies the supplier's intent/need to use progress payments by following the contract receipt and review process in DCMA-INST 118, "Contracts Receipt and Review" (Reference (m)).

3.1.2.1. The type of postaward contact will be at the ACO's discretion. Timeframes, type, and documentation will be in accordance with instruction requirements.

3.1.2.2. It is recommended that first-time contract awardees be considered high risk candidates for a postaward conference to ensure there is a clear and mutual understanding of all contract finance requirements.

3.1.2.3. Contract financing for an individual contract/order can be a combination of advance payments, guaranteed loans, and either progress payments or performance-based payments (PBP) (but not both) (FAR 32.113(h) (Reference (n))).

3.1.2.4. After contract award, the contractor has the option to propose PBP as a more favorable payment structure. Office of the Undersecretary of Defense, Acquisition, Technology and Logistics (AT&L) Memorandum, "Cash Flow Tool for Evaluating Alternative Financing Arrangements" (Reference (o)) provides instruction and an analysis tool is available at the Defense Procurement and Acquisition Policy (DPAP) Cost, Pricing and Finance Web page (link is located on the Resource Page of this Instruction).

3.1.2.4.1. All contracting officers shall utilize this tool on new fixed-price type contract awards resulting from solicitations issued on or after July 1, 2011.

3.1.2.4.2. This analysis tool will allow the ACO and contractor to compare the financial cost and benefits of using PBPs versus customary progress payments.

3.1.2.5. In accordance with DCMA-INST 134 (Reference (i)), the ACO shall obtain BoR approval before entering into negotiations with the contractor to convert the contract to another form of financing.

3.1.3. The customary progress payment rates for DoD contracts, including contracts that contain foreign military sales (FMS) requirements and contracts with foreign companies, are 80 percent of the contract price for large business; 90 percent for small business concerns; and 95 percent for small, disadvantaged business concerns as shown in Tables 1 and 2.

Table 1. Customary Progress Payments

Business Size	Payment Rate*	Regulation
Large Business (includes FMS Acquisition and foreign companies)	80 percent	FAR 52.232-16 (Reference (d)) DFARS 232.501-1 (Reference (p))
Small Business Concerns	90 percent	DFARS 232.501-1 (Reference (p)) DFARS 252.232-7004(a) (Reference (l))
Small Business Concerns	85 percent	FAR 52.232-16 Alternate I (Reference (d))
Small Disadvantaged Business Concerns	95 percent	DFARS 232.501-1 (Reference (p)) DFARS 252.232-7004(a) (Reference (l))
<p>*NOTE: For contracts pre-dating 2001, ACOs should use rates identified by clause in effect at time of contract award or included in the contract.</p> <p>* NOTE: At contract receipt, ACOs should confirm rate information is current in accordance with latest FAR/DFARS changes.</p>		

Table 2. Contract Type Progress Payments Rates

Contract Type	Payment Rate	Regulation
Undefinitized Contract Actions	80* percent	FAR 52.232-16(k) (Reference (q))
Letter Contract	80 percent	FAR 52.232-16, Alternate II (Reference (d))
<p>* NOTE: Payment is limited to 80 percent of total costs incurred on work accomplished and shall not exceed 80 percent of the Undefinitized Contract Action (UCA) obligated amount until definitized or such lower limit is specified elsewhere in the contract.</p>		

3.1.4. Unusual Progress Payments. The ACO determines if the contract contains unusual progress payment provisions (rates which exceed the customary rates) (FAR 32.501-2

(Reference (r)) and tailor surveillance efforts to address the unusual progress payment provisions/expenditures identified.

3.1.5. Multiple Progress Payment Rates. In situations where a contract contains multiple progress payment rates or requires segregation of disbursements, the ACO will work with the contractor and the Defense Finance and Accounting Service (DFAS) Center to determine the best method for submitting requests for progress payments (FAR 32.502-4(e)) (Reference (s)). Possible causes for multiple progress payment rates include:

- Different phases in a program managed contract
- Progress payment rate change during the life of the contract
- Due to undefinitized work added to the contract
 - When the undefinitized portion is definitized, the same lot numbering system should be maintained unless the progress payment rate is the same as the progress payment rate for the original portion of the contract and the contract does not require the costs to be segregated separately

3.1.5.1. An effective solution is to establish a separate PPR number series by segmenting the contract into lots. Phases of work/lots must be clearly severable and accounting segregation maintained.

3.1.5.1.1. The contractor is instructed to segregate the costs and liquidations for each lot separately.

3.1.5.1.2. Per the MOCAS User Guide (Reference (t)), part 2, paragraph 2.2.6., the lot number must be a one position alpha character (ex: PPRA006A, PPRA020C, PPRB003A) to differentiate between lots or phases.

3.1.5.1.3. The ACO should assure that the lot number is on the PPR prior to signature in Wide Area Workflow (WAWF).

3.1.5.1.4. This does not apply to separate rates for the U.S. and FMS portions of a contract

3.1.5.2. The contractor must submit separate PPR and subsequent invoices for the severable portions of work in order to maintain accounting integrity (FAR 32.502-4(e)) (Reference (u)). Payments cannot be made using automatic payment of invoices (API). When multiple (two or more) progress payment rates are authorized for use on one contract, contractors may submit one payment request per month, per allowable progress payment rate.

3.1.5.3. The ACO ensures a contract which authorizes lot progress payments is **never** put on Post Pay Table in WAWF.

3.1.5.4. The contracts are manually tracked and liquidated by DFAS/ACO. The ACO is responsible for performing all the required calculations and validations before signing the request.

3.1.5.5. Application of separate progress payment rates should be described in a supplementary special provision within the contract.

3.1.5.6. The ACO assures the highest progress payment and liquidation rate is entered in the MOCAS Provisions Data Record.

3.1.6. Special/Specific Payment Instructions. The procuring contracting officer (PCO) may include special payment instructions in the contract to reduce risks related to management of expenditure rates, management of canceling funds, or alignment of disbursement with actual performance. The ACO should review prime contracts (normally in Section G) and modifications to determine if they contain special/specific payment instructions.

3.1.6.1. The ACO shall ensure special/specific payment instructions are entered into MOCAS to prevent proration of accounting classification reference numbers (ACRN). If the special payment instructions are not entered into MOCAS, the MOCAS system will use API to distribute the payment proportionally against all available unliquidated obligations on the contract.

3.1.6.2. Contract limitations excluding any fixed-price line items shall be included in the MOCAS special payment instructions. For example, the contract may state that fixed-priced contract line item number (CLIN) 0001 is not authorized for progress payments. Any costs incurred for the performance of CLIN 0001 may not be claimed as eligible costs for progress payments. In addition, the ACO should ensure there is no liquidation against delivery invoices for CLIN 0001.

3.1.6.3. The ACO provides DFAS distribution instructions consistent with contract liquidation provisions. If DFAS is not used, the ACO should coordinate with the identified disbursing office. (**NOTE:** DFAS policy is to use the ACRN worksheet completed by the ACO in WAWF as special payment instructions and ignore any payment instructions posted elsewhere in MOCAS.)

3.1.7. Foreign Military Sales (FMS) Purchases. The ACO ensures the contractor submits separate Standard Form (SF) 1443, Contractor's Request for Progress Payment (or WAWF equivalent) for U.S. and FMS orders, and that a separate numbering system (see paragraph 3.3.1.) is maintained for the U.S. funds and the FMS funds for the life of the contract in accordance with DFARS 252.232-7002 (Reference (k)). For each submittal, the ACO obtains supporting schedules from the contractor showing the breakout of cost between U.S. and FMS requirements. If more than one country is involved, the schedule shall show a breakdown for each country for which work is being performed. The ACO shall not authorize progress payments without this schedule. Recommend the cost breakdown include the two-letter alpha identifier for each country for use during submittal review(s).

3.1.8. First Article. The PCO may limit progress payments to a stated amount or percentage until the First Article is approved (FAR 32.501-5(e) (Reference (u))). If imposed, costs in excess of the First Article limitation will not be paid prior to First Article acceptance.

3.1.8.1. If a First Article limitation has been imposed and long lead item procurements are authorized, the ACO shall ensure the contract clearly distinguishes which portion, if any, of the long lead item costs may be included in PPR (FAR 52.209-3 (Reference (v)) and FAR 52.209-4 (Reference (w))).

3.1.8.2. If a First Article limitation is not included in the contract and the ACO has reason to believe that it is necessary to protect the Government's interest, the ACO should recommend to the PCO that the contract be modified to include a limitation.

3.1.8.3. The ACO ensures MOCAS reflects the First Article limitation in the progress payment master file (see paragraph 3.2.).

3.1.9. Progress Payments Against Basic Ordering Agreements (BOA)/Indefinite Delivery Contracts (IDC). The progress payment rate used in individual orders should be consistent with both the provisions of the basic agreement and the progress payment rates in effect at the time the order was issued.

3.1.9.1. The contract price of an unpriced order issued against a BOA is the maximum amount obligated by the contract as modified (FAR 32.501-3(a)(5) (Reference (x))).

3.1.9.2. BOAs shall be updated by the PCO or ACO, if the function has been delegated, to reflect changes in the progress payment rate.

3.1.9.3. Orders issued before the rate change shall not be modified to include the new rate.

3.1.9.4. Under indefinite-delivery contracts, the contracting officer should administer progress payments made under each individual order as if the order constituted a separate contract (FAR 32.503-5(c) (Reference (y))).

3.1.10. Incrementally Funded Contracts. For fixed price incentive contracts which have properly incurred costs for authorized work that exceeds the target price, the ACO may provisionally increase the billing price up to the ceiling or maximum price (if funded). The ACO ensures the following:

3.1.10.1. Progress payments are limited to the lesser of applicable percentage of face value of the contract or obligated funds.

3.1.10.2. Contractor provides supporting documentation showing the estimate at completion (EAC) for both the current funded level and the fully funded value of the contract.

3.1.10.3. PPR and all supporting details are consistently completed and clearly distinguishable between the funded increment and the fully funded level.

3.1.11. Fixed Price Incentive Contracts. The ACO should review contract provisions regarding adjustment of profit and final contract price. Guidance regarding target price versus contract price can be found at FAR 32.501-3(a)(3) (Reference (z)).

3.1.12. Undefinitized Contractual Action (UCA) Limitation. Upon receipt and review of an undefinitized contract, the ACO ensures FAR 52.232-16(k) (Reference (q)) is included in the contract. If not, the ACO immediately informs the PCO of the omission. FAR 52.232-16(k) (Reference (q)) limits the amount of total costs incurred on work accomplished that can be billed to 80 percent and the amount of unliquidated progress payment for UCAs to 80 percent of the maximum liability of the Government under the UCA until definitized, or such lower limit specified elsewhere in the contract. Costs incurred for undefinitized work shall be segregated on PPRs from those costs eligible for higher progress payment rates (e.g., definitized work).

3.1.13. Mixed Type Contracts. Invoice submittals on contracts that contain cost-type line items, as well as FFP line items, are by bureau voucher number (BVN) (cost vouchers) and commercial invoices. Progress payments must be limited to the FFP portion of the contract. Recoupments against the progressed amounts must be limited to commercial invoices; i.e., recoupment should not be taken against the BVN (cost voucher)/cost portion. In addition to other special payment instructions entered into MOCAS for the contract, the ACO should add the following:

3.1.13.1. BVN special payment instructions should state the following: “This is a mixed-type contract. Do not recoup against BVNs.”

3.1.13.2. To prevent disbursement against the cost-type items, progress payment special payment instructions should state the following: “Progress payments are authorized on CLINs (list the FFP line items).”

3.1.14. Indirect Cost Considerations. The ACO is concerned with the indirect rates applicable to both incurred cost and estimated cost to complete the contract. Contractors with established forward pricing rate agreements (FPRA) shall use those rates for progress payment purposes during the period covered by the agreement(s). If the contractor’s financial condition changes to where the ACO determines the FPRA is invalid, the ACO shall discontinue use, notify all parties of the extent of the change(s), and begin effort to establish a revised FPRA (FAR 15.407-3(b) Reference (aa)). If an FPRA has not been established, the DCMA forward pricing rate recommendation or procedures under FAR 42.704 (Reference (ab)) shall be used.

3.1.15. Flexible Progress Payments. Flexible progress payments should not be included in contracts or orders resulting from solicitations issued on or after November 11, 1993. The ACO shall immediately contact the PCO to replace all language regarding flexible progress payments with current provisions.

3.2. MOCAS PROGRESS PAYMENT MASTER.

3.2.1. The ACO completes an initial DCMA Form 325, Contract Financing Administrative Record, or equivalent, to determine initial risk and input results into MOCAS as part of the

process to create a MOCAS Progress Payment Master in accordance with data input requirements per Chapter 2 of the MOCAS User Guide (Reference (u)). The ACO generates subsequent DCMA Form 325, or equivalent, records annually, biannually, or quarterly, based upon risk evaluations and at completion of all non-scheduled reviews during the life of the contract. Forms are retained as electronic records in the contract file as evidence of evaluation(s).

3.2.2. A MOCAS Progress Payment Master is created via MOCAS - YCPM - 7 - 11 - option 1, before the first PPR is processed for payment. The Progress Payment Master is used for input of the following information:

3.2.2.1. SR Code. The Status Review (SR) code is used to determine how often a periodic review should be performed. The code should be taken from Section B of the DCMA Form 325 (or equivalent). An SR Code 1 will trigger a progress payment review alert in 1-year; an SR Code 2 in 6 months; and an SR Code 3 will trigger the alert 3 months from the date the Progress Payment Master is created.

3.2.2.2. Review Date as well as Review Completed Date.

3.2.2.3. First Article Dollar Limitation and Acceptance Status.

3.2.2.4. Profit Percentage. Enter a profit percentage figure if the contract contains an alternate liquidation rate. The ACO should enter the percent of profit commensurate with the development of the alternate liquidation rate. The system, during its calculations and validations, will monitor to determine if the contractor's profit rate has changed and alert the ACO to this condition.

3.2.2.5. Alternate Liquidation Rates for U.S. and FMS.

3.2.2.6. Red Code - Reduction code requirements (U.S. and FMS). On occasion, an ACO may wish to reduce progress payments so an 'R' code is input. This code will be automatically generated when the contract moves to section 2 of the contract administration report after the nightly batch cycle is run; or, a review date has not been entered and the review date exceeds 60 days.

3.2.2.7. Stop-Pay (U.S. and FMS). The ACO inputs an 'S' code to stop payment. This code should be used judiciously since the ACO cannot override a stop payment code and cause a progress payment to pay. The stop pay code must first be deleted from the master in order for the progress payment to pay.

3.2.3. The Progress Payment Master should not be created for a contract until distribution instructions have been provided to the ACO and payment office. A Progress Payment Master and MOCAS tables related to progress payments will not be established or maintained for contracts not administered by DCMA.

3.2.4. It is recommended that a MOCAS YCPM screen print of the data become part of the official electronic contract file.

3.3. PROGRESS PAYMENT REQUEST (PPR) PREPARATION.

3.3.1. The submittal for payment must have a seven character alphanumeric request number starting with PPRA (for U.S. disbursements) or PPRB (for FMS disbursements). The next three positions are numeric and should be serially numbered (e.g., PPRA001, PPRA002). For contracts/delivery orders with both U.S. and FMS disbursements, the numbering is sequential by type (e.g., PPRA001, PPRA002, or PPRB001, PPRB002) not mixed (e.g., PPRA001, PPRB002).

3.3.2. PPRs must be submitted and processed electronically in accordance with DFARS 252.232-7003, Electronic Submission of Payment Requests And Receiving Reports (Reference (ac)). If the contract does not include this clause, the ACO should submit a contract deficiency report (CDR) to the PCO using the Electronic Data Access EDA-COR system. **NOTE:** The contract does not have to be in MOCAS in order to initiate a CDR. However, the initiator must have access to EDA-COR. New users may self-register; registration information is available at the EDA Web site (<http://eda.ogden.disa.mil>).

3.3.3. The ACO may authorize an alternative method of submission by determining, in writing, that one of the circumstances outlined in DFARS 252.232-7003(c) (Reference (ac)) applies. The written authorization must include effective dates and be distributed to the payment office, contractor, and PCO. A copy of the ACO's determination must accompany each contractor request for payment.

3.3.4. Facsimile (fax), email, and scanned documents are not acceptable electronic forms for submission of payment requests.

3.3.5. The ACO should confirm PCO provided distribution instructions are included in all contracts containing the progress payment clause. The distribution instructions should include sufficient information (DFARS PGI 204.7108(c) (Reference (ad))) to enable the paying office to distribute progress payments from each appropriation funding in proportions that reflect performance on the contract. The ACO provides DFAS the distribution instructions using the progress payment special instructions field (PROGPAY-INST-RQD) at the contract provisions data screen (YCU2 - 5 -12) in MOCAS. The ACO must choose one of four payment instruction conventions for input into MOCAS (Table 3):

Table 3. Payment Instruction Conventions

Method / Convention	Appropriate Contractual Situations	Meaning
Oldest funds first	Research and Development	Payment office will in sequential ACRN order within the contract, exhaust all funds in the previous ACRN before paying from the next ACRN using the following sequence: alpha/alpha; numeric/alpha; and numeric/numeric.
Proration	<ul style="list-style-type: none"> - Multiple appropriations for identical items; - Mixed Service buys for identical items; - Large volume of low cost items; - Concurrent spares and weapons systems 	<p>Distribution of payments using the existing MOCAS Automatic Payment of Progress Payment proration method. (Allocation of the invoiced amounts to all ACRNs based on the ACRN obligation as a percentage of the total contract obligation.)</p> <p>When using the Progress Payment Special Instructions field in MOCAS, Proration will be indicated by leaving the field blank. (This will allow for the system to automatically pay and prorate the payment.)</p>
Unique distribution instructions	When special instructions are needed for each PPR.	Specific distribution instructions will be provided for each PPR.(This includes specific distribution instructions for each payment, as well as proration, other than described below.) Distribution instructions will originate from the ACO. When unique distribution instructions are provided, they will be expressed as “ACRN XX (\$ Amount)” or “ACRN XX (X percent).”
Other	When the other methods are not appropriate.	Any distribution method not described above. Include text describing the method or where it can be found in the contract.

3.3.6. When a contract is funded by a **single** appropriation, as identified by the first seven positions of the long line of accounting, no distribution instructions within the appropriation are required.

3.3.7. When a contract is funded by **multiple** appropriations, and unique distribution instructions are needed, payment distribution will be based on the contract work performance and consistent with the reasons for the establishment of separate line items in accordance with DFARS PGI 204.7108(c) (Reference (ad)). The ACO should prepare distribution instructions that identify the specific amount to be paid from each appropriation as identified by the first seven positions of the long line of accounting. Once the ACO has determined the amount to be paid from each appropriation, the payment amounts for each ACRN identifying that appropriation may be prorated.

3.3.8. The ACO should not approve the progress payment unless distribution instructions are identified. If distribution instructions are not immediately available, amend the Progress Payment Master to read “RED-CD-US: R” to stop automatic payment (MOCAS User Guide (Reference (t))).

3.3.9. Distribution instructions input to MOCAS shall state at what level (contract, line item, subline item, exhibit line, or ACRN) the payments should be applied in accordance with DFARS PGI 204.7108(c)(5) (Reference (ad)).

3.3.10. When the contract requires the contractor report line item and ACRN data with each billing request, the ACO will not approve the request until this data is received.

3.3.11. The ACO shall not use a combination of contract-wide and line item specific instructions.

3.3.12. Contracts or orders that contain a combination of fixed price, cost-reimbursement, and/or time-and-materials/labor-hour line items, shall at a minimum include separate instructions for each contract type/line item. (DFARS PGI 204.7108(c)(6) (Reference (ad))).

3.3.13. For contracts or orders that contain FMS requirements, the distribution instructions shall include account information for each country in accordance with DFARS PGI 204.7108(c)(8) (Reference (ad)).

3.3.14. The ACO should use all necessary means to obtain distribution instructions, including elevation of the matter to supervision, in order to prevent government caused contract payment delays.

3.3.15. The ACO will evaluate contract/contractor data periodically to determine if modifications to the distribution instructions are needed. Distribution instructions shall be revised to address the impact of changes to contract funding or significant disparities between existing instructions and contract performance.

3.3.16. Normally, adjustments to distribution are prospective in the next payment; however, on rare occasions, a formal correction by the DFAS supporting finance office may be required.

3.3.17. Upon receipt of a modification incorporating additional ACRNs to a contract or adding funding to existing ACRNs, the ACO should re-evaluate existing distribution instructions and make the necessary adjustments before approving the next PPR. These requirements apply to contracts and any separately priced orders that authorize financing payments. (DFARS PGI 204.7108 (Reference (ad))).

3.3.18. The ACO monitors distribution of delivery payments to ensure recoupment of unliquidated progress payment funds is on the same basis as the progress payment(s). For example, if the distribution instructions were to pay against ACRN AE because the ACO knows the incurred costs were related to CLIN 0002, then when CLIN 0002 is delivered, progress payments should be recouped against ACRN AE. If DFAS does not distribute or recoup progress payments pursuant to the distribution instructions, the ACO shall promptly contact DFAS to make the appropriate adjustments in MOCAS.

3.3.19. Additional data will not be requested from contractors, or changes required in how contractors account for or segregate costs, for the purposes of progress payment distribution.

3.3.20. For acquisition category (ACAT) I and II contracts, the ACO shall report the dollars paid in PPRs and EAC data of the most recent PPR to the cognizant PCO and DCMA Program Integrator (PI) at least every 6 months.

3.4. CONTRACTOR CAPABILITY TO PERFORM.

3.4.1. The ACO will determine and document the overall capability of the contractor to perform work required by the contract/order (FAR 32.503-2(b) (Reference (ae))).

3.4.1.1. Evaluation criteria cited in FAR 32.503-2(a) (Reference (ae)), for ACO use includes:

- Financial capability
- Adequacy of accounting system and controls
- Past performance
- Experience
- Quality of management
- Reliability

3.4.1.2. The ACO will not approve progress payments (FAR 32.503-3, Initiation of Progress Payments and Review of Accounting System (Reference (af))) before determining:

- The contractor is capable of liquidating progress payments
- The contractor's accounting system and controls are adequate for proper administration of progress payments

3.4.2. For evaluation of the contractor's capability to perform, the ACO may use information available within the last 12 months (FAR 32.503-3(a) (Reference (af))), such as recent pre-award

surveys, should cost studies, business systems reviews, other evaluations and/or coordination with other members of the team. This information may include the following:

3.4.2.1. Financial analysis which addresses the contractor's overall liquidity, cash flow, backlog of work and financial posture.

3.4.2.2. Contract auditor evaluation of the contractor's accounting systems, billing system, and material management accounting system (MMAS), if applicable. Do not rely upon audit reviews older than 12 months to determine contractors' overall capability to perform.

3.4.2.3. Technical specialist evaluation(s) of the contractor's experience or capability in producing the item at the prime contractor and major/critical subcontractors, and evaluation of the contractor's production and quality systems controls.

3.4.2.4. Contractor business systems status posted in the Contract Business Analysis Repository (CBAR) e-Tool.

3.4.3. Deficiencies found during business systems evaluations will be reported as outlined in DCMA-INST 131, "Contractor Business Systems" (Reference (ag)). When a business system is disapproved, DFARS 252.242-7005 (Reference (ah)), requires the ACO to withhold payment against progress payments, PBP, and interim payments billed under cost, labor-hour, and time-and-materials contracts.

3.4.3.1. A withhold tracking spreadsheet is provided in the Tools section of the DCMA-INST 131 (Reference (ag)) and shall be used by the ACO for purposes of tracking withholds for business systems.

3.4.3.2. Limitations on payment withholds and corresponding contractor billing withholds are outlined in DFARS PGI 242-7000(b) (Reference (ai)), DFARS 252.242-7005(e) (Reference (ah)), and DCMA-INST 131 Contractor Business Systems (Reference (ag)), paragraphs 3 through 10.

3.4.3.3. For IDCs, the ACO administers progress payments under each order as if the order were a separate contract (FAR 32.503-5(c) (Reference (y))).

3.4.4. When needed to determine the contractor's capability to perform or the contractor's progress, the ACO will request the IS perform a physical progress review using an added/weighted value methodology or the supplier's earned value baseline to identify the value of items or services required by contract. A weighted value progress payment form (example DLA1503 and 1503a forms are available on the Resource Page), or equivalent, should be used to identify the direct cost value of the items or services (direct material and labor) required by the contract, before the contractor expends significant effort on the contract, using the established baseline. The IS will verify the contractor's ETC and/or develop an independent IEAC as requested by the ACO (DCMA-INST 204, "Manufacturing and Production" (Reference (a)j)).

3.4.5. When the contractor is an entity or segment of a multi-divisional company and a CACO is assigned to the company, the CACO is responsible for analyzing the company's financial condition to ensure it can complete all contract requirements and liquidate all government finance payments. The results of the financial condition reviews are normally distributed to all ACOs for their determination of authorizing government finance payments and for ensuring the company has adequate financial resources to complete performance of all contractual obligations. Although the CACO will perform the financial condition reviews, the individual ACOs who approve progress payments are responsible for compliance with FAR 32.503-3 (Reference (af)), before progress payments can be approved for a contract. There must be close coordination between CACOs, divisional ACOs (DACOs) and ACOs.

3.4.6. The DCMA Form 325, or equivalent, may be used to document evaluation results in the contract file. If the DCMA Form 325, or equivalent, is not utilized, all the information contained in the DCMA Form 325 will be input to the contract file as an electronic document.

3.4.7. For program-managed contracts, the ACO will work with the PI to identify major subcontractors and initiate supporting delegations to provide for periodic physical progress status reviews as required.

3.4.8. If the contractor's accounting system and controls are not fully adequate, but portions of costs are adequate and clearly traceable, the ACO, in coordination with the auditor, may approve progress payments limited to those costs.

3.4.9. If the contract is performed or the contractor is located in a foreign country, financial, accounting, and other system reviews may be performed in accordance with host nation agreements and other applicable laws and regulations. Any reviews not covered by the above agreements may be performed by the DCMA team.

3.5. PROGRESS PAYMENT REVIEW.

3.5.1. All PPRs are submitted to the ACO for approval prior to forwarding to DFAS for payment unless the post payment review box is checked putting the contract on the WAWF Post Payment Table. If a progress payment fails the initial MOCAS validation, it is returned to the ACO for corrective action.

3.5.2. The ACO shall review the first progress payment submitted in WAWF for each contract/order wherein progress payments will be used as interim financing.

3.5.3. When the ACO approves a payment, the post payment review box **can** be checked. The contract will then be added to the WAWF Post Payment Table. All subsequent payment requests will be sent directly to MOCAS for payment. The ACO can review the progress payment in WAWF, but no approval action is required. MOCAS performs the necessary administrative checks of the request. Although ACOs perform cursory review of automatically paid PPRs to keep abreast of activity on the contract, the ACO normally does not review each individual request unless it fails one of the MOCAS validation checks.

3.5.4. The ACO shall ensure First Article limitation(s) and/or long lead item procurement(s) are correctly identified when submitted as part of the progress payment(s).

3.5.5. When a withhold has been implemented on the contract due to a business system deficiency, the ACO shall ensure the contract is **not** on the Post Pay Table in WAWF (DCMA-INST 131 Contractor Business Systems, paragraph 3.9.1. (Reference (ag)).

3.5.6. When approving a lesser amount for the progress payment, the ACO shall use the comment block on the 'Miscellaneous' tab in WAWF to record the amount requested, amount withheld, amount approved and cumulative amount withheld to date. See example provided in the DCMA-INST 131, paragraph 3.9.2.1.1. (Reference (ag)).

3.5.7. If paper requests are authorized, the ACO shall contact the payment office for submission instructions.

3.5.8. For contracts not in MOCAS, the ACO manually conducts a validation of each request. DoD policy is to process contract financing payments as quickly as possible; therefore, ACOs will validate and approve or disapprove the payment request expeditiously. Two business days from receipt of the payment request is normally sufficient time for processing (see Validation Instructions listed under Tools on the Resource Page of this Instruction).

3.5.9. The ACO shall not approve the initial PPR until the contractor provides a written description of the methods used for developing: SF 1443 (or WAWF equivalent), Contractor's Request for Progress Payment, Item 12b, "Estimated Cost To Complete," and SF 1443 (or WAWF equivalent) Item 20a, "Costs included in Item 11 applicable to items delivered, invoiced and accepted as of the date in the heading of Section II," of the request. The contractor will provide the necessary files for review in accordance with FAR 52-232.16(g) (Reference (d)). As required by the PPR instructions for Item 12b, the contractor updates the ETC amount no less frequently than every 6 months. Procedures for estimating the cost to complete the contract are provided as a guide under Tools on the Resource Page of this Instruction.

3.5.10. If the ACO determines that manual review and approval of an individual PPR is required, the ACO shall input an R (reduction) in the MOCAS Progress Payment Master 'Stop Pay Code' field. The R code allows for an administrative review of the request and requires the ACO's signature before releasing payment on the request.

3.5.11. If a calculation error is detected in the PPR, the ACO must immediately reject the request back to the contractor for correction and resubmittal. If the PPR has been received at DFAS, the incorrect submittal must be deleted from MOCAS via YCPM > option 7 (Contract Payment and Reporting Menu) > option 11 (Progress Payment Menu) > option 3 (Return Prog Pay To Cntrctr). **NOTE:** UNFM58 screen entry 'PP-REQ-NO' will not accept the entire PPR number – entry is limited to three or four digits (ex: 002 or 002A). If the cause for the error in calculation cannot be rectified prior to the next request submission cycle, or if a disagreement exists between the contractor and the ACO regarding the error, the ACO must immediately defer submittals by annotating the Progress Payment Master. The submittal procedure may be re-

authorized when compliance is restored to the satisfaction of the ACO. **NOTE:** Any approval action by the ACO in WAWF will override the codes in the Progress Payment Master.

3.5.12. If progress payments are to be stopped, the ACO shall enter an 'S' code (Stop) in the MOCAS Progress Payment Master 'Stop Pay Code' field. Future progress payments cannot be paid unless the 'S' code is removed from MOCAS.

3.5.13. The ACO, or any member of the CMO team, are never allowed to make changes to a submitted SF 1443 (or WAWF equivalent), Progress Payment Request, except for Item 27.

3.6. PERIODIC REVIEW SCHEDULE AND SURVEILLANCE PLANS.

3.6.1. The ACO will develop a periodic review schedule and surveillance plan using data provided by technical specialist(s), including Defense Contract Audit Agency (DCAA) or cognizant host nation equivalent, as appropriate. Information on which countries have host nation reciprocal financial audit agreements may be found via the link posted under Tools on the Resource Page of this Instruction. The extent of progress payment supervision, by prepayment review or periodic review, should vary inversely with the contractor's experience, performance record, reliability, quality of management, financial strength, and with the adequacy of the contractor's accounting system and controls. Supervision shall be of a kind and degree sufficient to provide timely knowledge of the need for, and timely opportunity for, any actions necessary to protect the Government's interests (FAR 32.503, Postaward Matters (Reference (ak))). The ACO shall revise the surveillance plan when the review results indicate a revision is warranted.

3.6.2. The ACO shall request an IEAC using the assistance of the Earned Value Management System (EVMS) technical specialist(s) for each contract containing earned value management requirements receiving progress payments on a frequency commensurate with the risk associated with the contract to assure the contractor is not in a loss position (FAR 32.503-4, Approval of Progress Payment Requests (Reference (al))); FAR 32.503-5, Administration of Progress Payments (Reference (y)); and FAR 32.503-6, Suspension or Reduction of Payments (Reference (am))).

3.6.3. The frequency of progress payment reviews is determined using the number of points calculated in Section B of DCMA Form 325 (or equivalent).

3.6.4. The different types of progress payment reviews are:

3.6.4.1. Scheduled Periodic Review. Perform periodic reviews in accordance with the frequency established in paragraph 3.6.1. Periodic reviews normally are performed post-payment (see FAR 32.503-5(a) (Reference (y))); however, if circumstances warrant, a pre-payment review may be appropriate.

3.6.4.2. Progress Payment System Review (PPSR). If the contractor's progress payment procedures and implementation processes are sound, an annual PPSR may be accomplished in lieu of individual contract reviews. The PPSR is limited to contractors that are submitting at least 36 PPRs per year, are in sound financial condition, have stable accounting systems, and are

free from accounting or questioned cost issues that would affect the allowability and allocability of costs for progress payment purposes. Coordinate with the contract auditors and determine which contractors are candidates for a PPSR and which contracts to be included in the sample. The potential for combining the PPSR with the contract auditor's billing system review may be considered at this time.

3.6.4.3. A PPSR includes everything an individual periodic progress payment review includes, except it is to be performed on a statistically valid sample (values, types, complexities) of all contracts receiving progress payments. An audit of the progress payment process and technical reviews by DCMA, DCAA, and/or host nation audit personnel, as appropriate, of the sample for further incorporation into the audit is part of the PPSR. It also addresses the contractor's financial condition.

3.6.4.3.1. DCAA routinely performs full accounting system, billing system, and MMAS reviews on 3-year cycles.

3.6.4.3.2. The contractor's business systems are generally under continuous surveillance allowing DCMA technical specialists, including DCMA cost/price analysts, DCMA contractor purchasing system review (CPSR) analysts, and DCAA, or host nation audit personnel, as appropriate, to make adequacy statements considered "current" in other audits; i.e., the PPSR audit.

3.6.4.3.3. A billing system review does not satisfy the requirements of a PPSR. It is recommended that a PPSR be aligned with the DCAA, or equivalent host nation audit agency, review of a contractor's billing system, when practical, because some common areas are reviewed. A billing system review does not verify contractor compliance with the progress payment requirements. It does not verify if the contractor has a system that requires it to input actual liquidation for Item 23 of the SF 1443 (or WAWF equivalent), the correct obligated amount on Item 5 of the SF 1443 (or WAWF equivalent), etc. It does not validate the contractor's ETC/EAC methodology/accuracy nor correct liquidation/progress payment rate usage, etc. In short, a billing system review does not assure error free PPR submissions or compliance with the FAR progress payment clause(s).

3.6.4.4. Out-of-Cycle Prepayment and Post Payment Reviews. An out-of-cycle prepayment review is appropriate in those high risk situations (see FAR 32.503-4(b) (Reference (al))) where there is an expectation of a loss; that is, where the Government may not recover all of the unliquidated progress payments. Conditions meriting prepayment review may include: financial capability so weak as to threaten performance; doubt as to the reliability or accuracy of the requests; or a combination of factors putting contract completion in jeopardy.

3.6.4.4.1. The ACO should exercise caution in the use of prepayment reviews due to the effect that a delay in payment may have on the contractor. A prepayment review should be obtained on an expedited basis, normally with a 5- to 10-day turnaround from the ACO receipt of a PPR.

3.6.4.4.2. Out-of-cycle post payment reviews are used only in high risk situations

which, while not as severe as to require out-of-cycle prepayment reviews, have risk of loss too great to rely solely on periodic reviews. A condition such as an unstable financial capability may indicate the need for out-of-cycle post payment reviews. The ACO shall complete out-of-cycle post payment reviews within 45 days of the request. During the review, the ACO shall evaluate any reports developed by the Government or the contractor resulting from other contractual requirements. The ACO looks for consistency between the reports; e.g., EACs, from the different reports and the results of the progress payment review.

3.6.5. Basic review requirements to satisfy FAR 32.503-5 (Reference (y)) include:

3.6.5.1. Costs expended are commensurate with physical progress on the contract and supported by the fair value of the work in process.

3.6.5.2. Outstanding progress payments are capable of being liquidated.

3.6.5.3. The contractor's accounting system, controls, and certification are still adequate for progress payment purposes.

3.6.5.4. The contractor's financial condition is sufficient to finance its current contractual workload to completion and to liquidate outstanding progress payments, including verification that the contractor is paying the costs of performance as required by the progress payment clause.

3.6.5.5. ETC methodology performed.

3.6.5.6. Other systems that may be critical to progress payments are adequate.

3.6.6. If review discloses an overpayment, the ACO shall act promptly to remedy the contract debt situation in accordance with the provisions of FAR 32.6 (Reference (an)) and DFARS 232.6 (Reference (ao)). Only the ACO can issue a demand letter if the assertion of overpayment relates to judgment or interpretation of contract terms; i.e., if there could be a difference of opinion as to whether the contractor was entitled to the payment. DFAS should issue demand letters to correct an administrative error by DFAS; e.g., duplicate payment or misplaced decimal point (FAR 32.602(a) (Reference (ap))).

3.6.7. In special and limited situations, the ACO can waive periodic reviews. The ACO shall clearly document this decision in the contract file. When a periodic review is waived, the ACO shall update sections D and E DCMA Form 325 (or equivalent) and, when applicable, re-evaluate the risk ratings in section B of the DCMA Form 325 (or equivalent). MOCAS requires an accurate review date be input to the MOCAS Progress Payment Master. Some examples of these situations are:

3.6.7.1. A contract with an unliquidated progress payment balance less than \$100,000 which is in no danger of being recouped.

3.6.7.2. A contract which will be completed within 60 days and is in no danger of being unliquidated, incomplete, or delinquent.

3.6.7.3. An unscheduled review was completed within 60 days of the scheduled review date and disclosed no deficiencies.

3.6.8. If review reveals title to progress payment inventory is encumbered in any way, the ACO:

3.6.8.1. Should demand unsecured amounts be returned.

3.6.8.2. Ensure no more payments are made until the condition is corrected.

3.6.8.3. May require additional protective provisions per FAR 32.501-5 (Reference (aq)) be included in the contract.

3.6.9. Upon completion of the review, the ACO shall ensure the Progress Payment Master is appropriately updated in MOCAS. Failure to update the master stops automatic payments. A screen print of the updated master should be imported to the contract file.

3.6.10. Based on the results of the periodic review, the ACO will determine whether to continue, suspend, or reduce payments (FAR 32.503-6 (Reference (am)) and FAR 52.232-16 (Reference (d))). The ACO will support the reason for the reduction/suspension in the 'Comments' field on a WAWF submission, or document the contract file in the case of a paper submission, with adequate evidence. The ACO will notify the contractor and PCO/buying command in writing of the intended action. The following are some reasons for reductions/suspension:

3.6.10.1. Disallowance of Cost. Reductions for disallowance of cost occur when unallocable/unallowable costs have been billed under progress payments.

3.6.10.2. Contractor fails to comply with a material requirement of the contract.

3.6.10.3. The contractor experiences an unsatisfactory financial condition.

3.6.10.4. Inventory allocated to the contract exceeds reasonable requirements.

3.6.10.5. Delinquency in payment of costs of performance.

3.6.10.6. Unliquidated progress payments exceed the fair value of undelivered work.

3.6.10.7. Loss Condition. Loss ratio reductions are used when the estimated contract cost at completion exceeds the contract price .

3.6.10.7.1. Compute and apply a loss ratio factor as outlined in FAR 32.503-6 (g) (Reference (am)) and DFARS 232.503-6 (Reference (ar)).

3.6.10.7.2. Prepare a supplemental analysis in accordance with FAR 32.503-6 (g) (Reference (am)).

3.6.10.7.3. When a contract is in a loss position, the contractor submits the PPR showing the actual costs, without a loss ratio adjustment. However, the ACO may request the contractor attach a supplementary sheet showing the proper application of the loss.

3.6.10.7.4. Contracts authorized for post-pay review will automatically be sent to the ACO for signature if there is a loss condition.

3.6.10.8. MOCAS computes the loss ratio calculations based on contractor submitted data; not WAWF. **NOTE:** Independently validate the contractor's submission. The result of the progress payment and the validation report is available to the ACO in MOCAS for review and disposition:

3.6.10.8.1. Approve. In WAWF, insert a check mark in 'Approve' or 'Approve for Lesser Amount' as applicable, fill in 'Approved Amount,' and submit.

3.6.10.8.2. Disapprove. In WAWF, insert comments and reject the document to the contractor. Clear the image in MOCAS by selecting MOCAS UNFM50 Report, Function 3.

3.6.11. The ACO shall increase the liquidation rate in situations where progress payment reductions are appropriate but the reductions cannot be enacted because the contractor has stopped progress billings. The ACO shall document the contract file with supporting data justifying the increase. As with reductions, the liquidation increase is representative of the material harm to the Government as reflected in FAR 52.232-16(b) (Reference (d)). Liquidation rate increases require a unilateral modification to the contract.

3.6.12. IDCs and BOA orders issued before a liquidation rate change must not be modified to include the new rate. As previously cited, FAR considers individual orders to be treated as separate contracts. It is the responsibility of the contracting officer to ensure the liquidation rate (per contract) will result in sufficient recoupment of progress payment billings (FAR 32.503-10 (Reference (as))).

3.7. BOARD OF REVIEW (BOR).

3.7.1. A BoR is required:

3.7.1.1. When an ACO considers suspension of progress payments for small businesses (e.g., small, small- disadvantaged, women-owned, Historically Underutilized Business Zone (HUBzone), service-disabled veteran-owned).

3.7.1.2. When an ACO considered suspension may have a negative impact on any contractor's ability to perform the contract through physical completion.

3.7.1.3. When the ACO negotiates converting contract financing from one form to another.

3.7.2. The ACO shall obtain approval of any proposed suspension and/or negotiation from the CMO contracts director and any required contract management BoR approval before taking action. The CMO contracts director may delegate the approval authority for the suspension or finance negotiations to a level no lower than the contracts team chief/team supervisor/team leader. See DCMA-INST 134 (Reference (i)) for the specific BoR process.

3.8. TRACK DISBURSEMENT DATA.

3.8.1. For contracts on the WAWF Post Payment Table and MOCAS contracts with any other complicated financing arrangement, the ACO will track and accumulate disbursement/funding data by means of the disbursement register maintained in the contract file. This register will be used to ensure proper financing of the contract occurs. The ACO will review liquidation of progress payments by ACRN and, if required, provide instructions to DFAS on redistributing payments or adjusting future payment distribution.

3.8.2. Track Liquidations. The ACO will ensure a proper liquidation rate is used. FAR 32.503-8 (Reference (at)) through FAR 32.503-10 (Reference (as)) outline the conditions for using ordinary and alternate liquidation rates and explain how to compute them.

3.8.3. The ACO should ensure DFAS does not make payment unless it has received an ACO approved PPR.

3.8.4. In the event of problems related to the distribution instructions or the liquidation against delivery payments on an affected contract, DFAS will contact the ACO.

3.9. PROGRESS PAYMENT MANAGEMENT.

3.9.1. The ACO shall ensure there are **no** credit progress payments. DFAS cannot successfully process contract financing requests whose net value is a negative number. MOCAS does not recognize credit PPRs and subsequently stops all future PPRs because a previous PPR has not been paid. If the contractor owes the Government money and wants to repay in the form of a credit contract financing request (accompanied by a remittance), the ACO should encourage the contractor to remit the payment via the automated cash collection system (ACCS). If the contractor chooses to use the SF 1443, or WAWF equivalent, to compute a credit, instruct the contractor to attach the SF 1443 to the check, or in conjunction with an ACCS payment if applicable. However, the contractor should not submit it as a contract financing request to DFAS Entitlement. If a check is being forwarded to DFAS by the CMO, use DD Form 1131, Cash Collection Voucher (DoD 7000.14-R, "DoD Financial Management Regulation" (Reference (au))).

3.9.2. The ACO shall ensure that classified information is not entered into any system not approved for processing classified information.

3.9.3. When the ACO discovers that a contractor who is receiving progress payments has gone into bankruptcy or is experiencing financial difficulties, the ACO shall consult with DCMA legal counsel and issue a DCMA Bellringer Report in accordance with the process outlined in DCMA-INST 411, "Bellringer Reporting" (Reference (av)). The ACO shall insert an 'S' code in the MOCAS Progress Payment Master 'Stop Pay Code' field.

3.9.4. When contractors with outstanding progress payments undergo corporate restructuring or novation, the ACO must take appropriate action, such as executing subordination agreements or putting appropriate language in novation agreements, to preserve the Government's rights to progress payment inventories. The ACO coordinates the proposed actions with DCMA legal counsel.

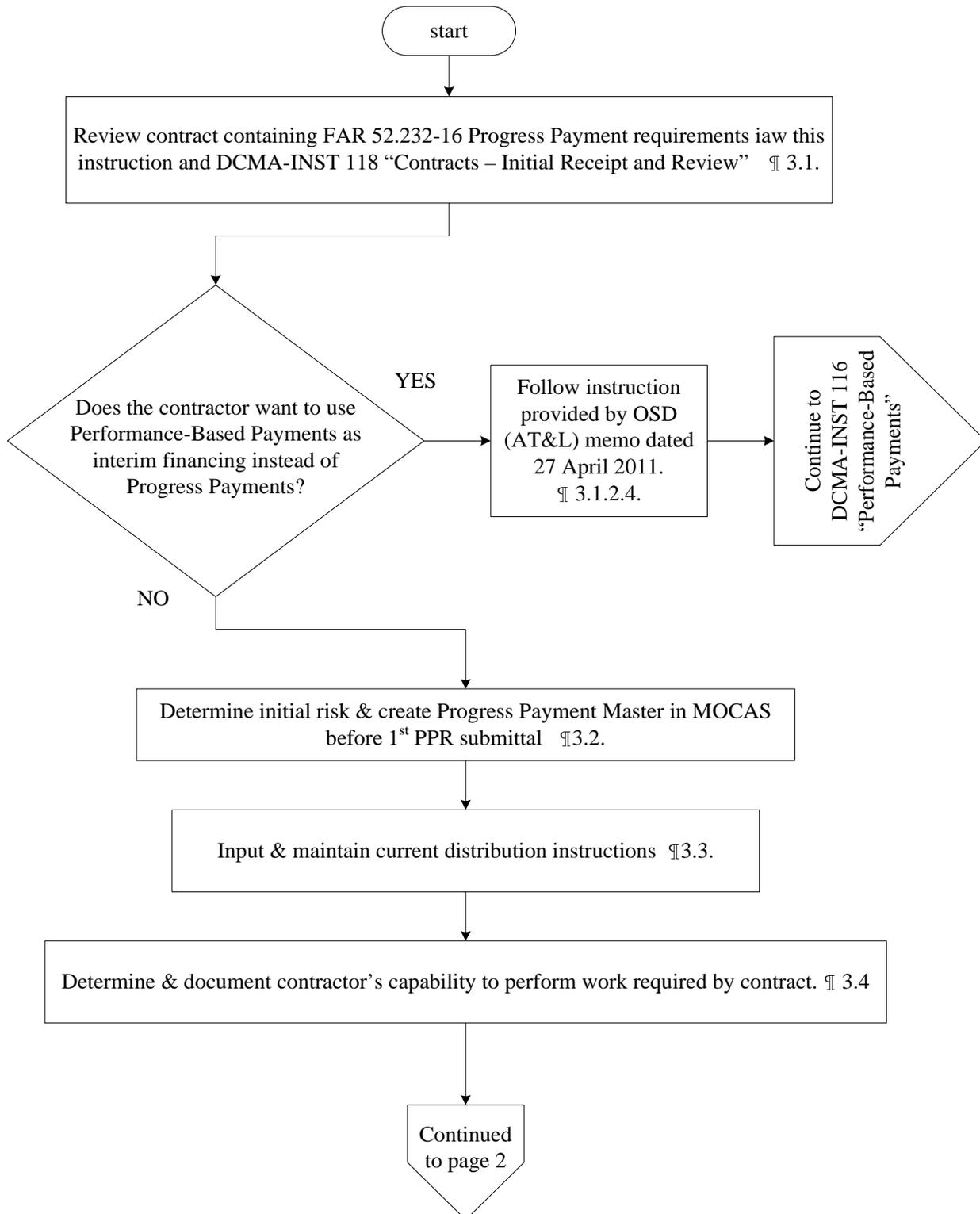
3.9.5. Upon receipt of a Notice of Contract Termination for Default, the ACO will immediately update the progress payment master by inputting an 'S' code in the MOCAS Progress Payment Master 'Stop Pay Code' field. The ACO will not approve further progress payments for that contract/order.

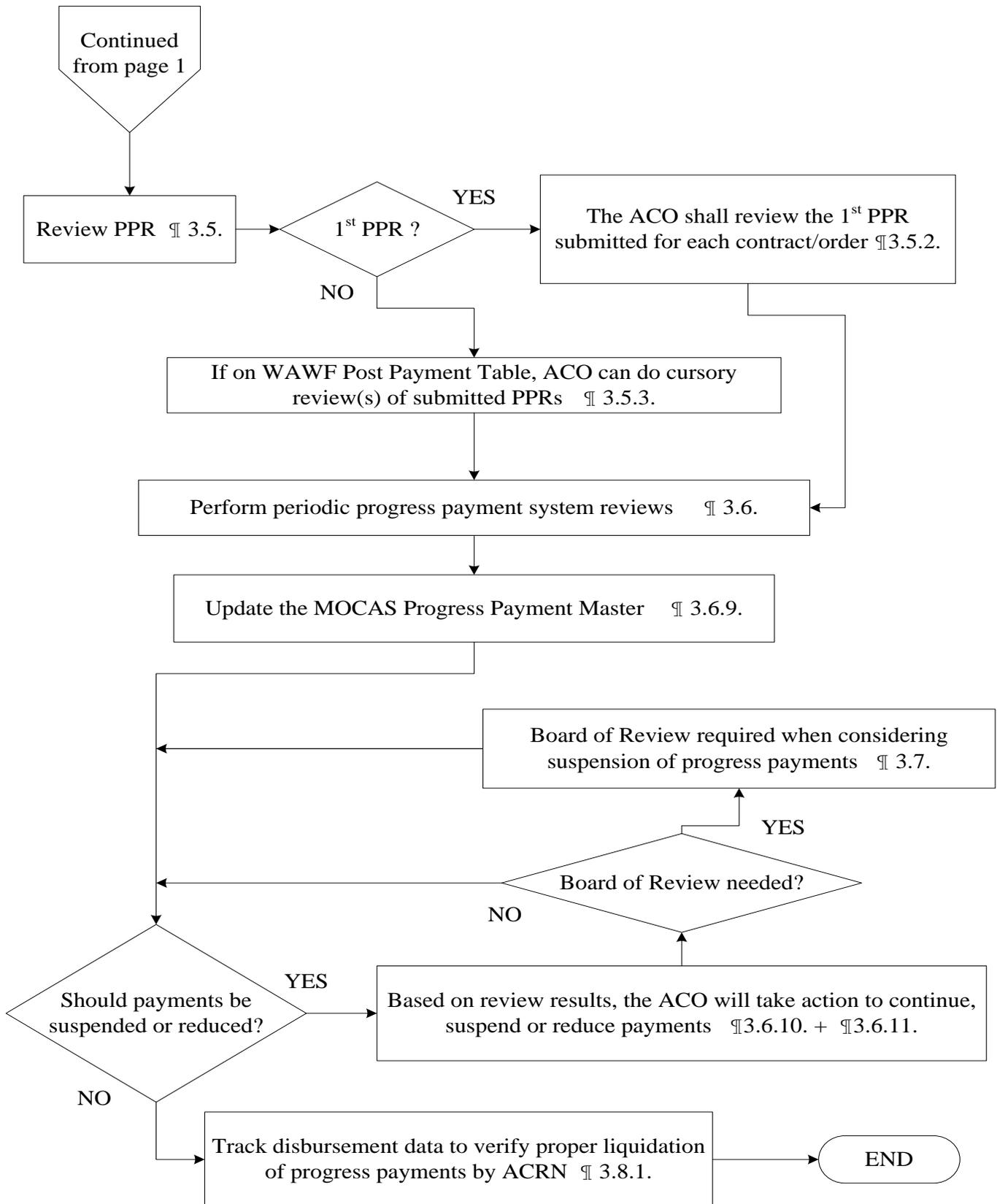
3.9.6. Upon receipt of a Notice of Termination for Convenience (complete), the ACO will contact the termination contracting officer (TCO) for coordination and input an 'R' code in the MOCAS Progress Payment Master 'Stop Pay Code' field.

3.9.7. Upon receipt of a Notice of Termination for Convenience (partial), the ACO will input an 'R' code in the MOCAS Progress Payment Master 'Stop Pay Code' field and coordinate with the TCO. If progress payments can be requested for the portion not terminated, the ACO will ensure that the contractor can properly segregate costs so that progress payments are not claimed for the terminated portion under contract.

APPENDIX A
FLOWCHART

Progress Payments Based On Cost





ACRONYMS

ACAT	Acquisition Category
ACCS	Automated Cash Collection System
ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
API	Automatic Payment of Invoices
BOA	Basic Ordering Agreement
BoR	Board of Review
BVN	Bureau Voucher Number
CACO	Corporate Administrative Contracting Officer
CBAR	Contract Business Analysis Repository
CDR	Contract Deficiency Report
CLIN	Contract Line Item Number
CMO	Contract Management Office
CPSR	Contractor Purchasing System Review
DAWIA	Defense Acquisition Workforce Improvement Act
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCMA-INST	DCMA Instruction
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Services
EAC	Estimate At Completion
EDA	Electronic Data Access
ETC	Estimate to Complete
FAR	Federal Acquisition Regulation
FFP	Firm Fixed Price
FMS	Foreign Military Sales
FPRA	Forward Pricing Rate Agreements
IDC	Indefinite Delivery Contract
IEAC	Independent Estimate at Completion
IS	Industrial Specialist
MMAS	Material Management Accounting System
MOCAS	Mechanization of Contract Administration Services
PBP	Performance-Based Payment
PCO	Procuring Contracting Officer
PGI	DFARS Procedures, Guidance, and Information
PI	Program Integrator

PLAS	Performance Labor Accounting System
PPR	Progress Payment Request
PPSR	Progress Payment System Review
SF	Standard Form
SR	Status Review
TCO	Termination Contracting Officer
UCA	Undefinitized Contract Action
WAWF	Wide Area Workflow