



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Performance-Based Payments

Contracts Directorate
DCMA-AQCF

DCMA-INST 116
August 18, 2014

SUMMARY OF CHANGES: Policy amended to reflect DFARS 232.10 changes effective March 31, 2014, regarding inclusion of contractor incurred cost data when evaluating performance-based payment requests and wording changes in response to field recommendations and/or updated DCMA instructions. Flowchart has been relocated to the resource page.

1. PURPOSE. This Instruction:

a. ***Reissues Revises*** and updates DCMA Instruction (DCMA-INST) 116, “Performance-Based Payments” (Reference (a)).

b. Establishes policies, assigns roles and responsibilities, and outlines procedures for the administration of ~~Performance-Based Payments~~ ***performance-based payments (PBP)***.

c. Is established in ~~compliance with DoD Directive 5105.64 (Reference (b)), and all references listed.~~ ***accordance with the authority in DoD Directive 5105.64, “Defense Contract Management Agency (DCMA)” (Reference (b)).***

2. APPLICABILITY. This Instruction applies to all DCMA activities that ***prepare***, manage, review, validate, ~~and approve Performance-Based Payment actions.~~ ***approve, and use DCMA policies.***

3. MANAGERS’ INTERNAL CONTROL PROGRAM. In accordance with DCMA-INST 710, “Managers’ Internal Control Program” (Reference (c)), this Instruction is subject to evaluation and testing. The process flowchart is located ~~at Appendix A.~~ ***on the resource Web page.***

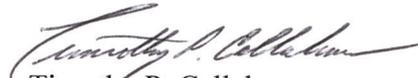
4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. PLAS CODE. 147 Performance-Based Payments

6. POLICY RESOURCE PAGE. <https://home.dcma.mil/policy/116r>

August 18, 2014

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective August 18, 2014, and all applicable activities shall be fully compliant within 60 days from this date.



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REFERENCES

- (a) DCMA-INST 116, "Performance-Based Payments," *June 13, 2013* (hereby canceled)
- (b) DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
- (c) DCMA-INST 710, "Managers' Internal Control Program," *April 21, 2014*
- (d) Federal Acquisition Regulation (FAR) 32.1001, ~~"Policy"~~ *"Performance-Based Payments"*
- (e) FAR 32.104, "Providing Contract Financing"
- (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," *August 5, 2013*
- (i) FAR 52.232-32, "Performance-Based Payments"
- ~~(j) FAR 32.1001(a), "Policy"~~
- (j) FAR 42.302(e), "Contract Administration Functions"*
- (k) DCMA-INST 138, "Order Issuance and Definitization," February 10, 2014*
- (l) DCMA-INST 120, "Pricing and Negotiation," April 1, 2014*
- ~~(n) FAR 32.1001(e), "Policy"~~
- (m) DFARS 232.10, "Performance-Based Payments"*
- ~~(o) FAR 32.1004(b)(1), "Procedures"~~
- (n) FAR 32.503-6, "Suspension or Reduction of Payments"*
- ~~(p) FAR 32.1004(a)(1), "Procedures"~~
- (o) DCMA-INST 131, "Contractor Business Systems," November 6, 2013*
- ~~(q) FAR 32.1004(b)(3)(ii), "Procedures"~~
- ~~(r) FAR 32.1004(b)(2)(ii), "Procedures"~~
- ~~(s) FAR 32.1001(e), "Policy"~~
- ~~(t) FAR 32.1004(d), "Liquidating Performance Based Finance Payments"~~
- ~~(u) FAR 32.1004(c), "Procedures"~~
- ~~(v) OSD (AT&L) Memorandum, "Cash Flow Tool for Evaluating Alternative Financing Arrangements," April 27, 2011)~~
- ~~(w) FAR Subpart 32.10, "Performance-Based Payments"~~
- (p) DCMA-INST 134, "Boards of Review," November 4, 2013*
- ~~(y) FAR 32.1004(b)(5), "Establishing Performance Based Finance Payment Amounts"~~
- ~~(z) FAR 52.232-32(f), "Title"~~
- (q) DCMA-INST 552, "Information Security Program," —October 29, 2013*
- ~~(ab) DCMA-INST 118, "Contracts — Initial Receipt and Review," October 1, 2010~~
- (r) DCMA-INST 118, "Contract Receipt and Review," June 25, 2013*
- ~~(ac) FAR 42.302(a)(13), "Contract Administration Functions"~~
- ~~(ad) FAR 32.1007(d), "Incomplete Performance"~~
- (s) DFARS 252.232-7012, "Performance-Based Payments – Whole-Contract Basis"*
- (t) DFARS 252.232-7013, "Performance-Based Payments – Delivered-Item Basis"*
- (u) DCMA-INST 104, "Contract Debts," November 25, 2013*
- ~~(af) DFARS 232.1001, "Policy"~~

- (v) FAR 32.001, "***Contract Financing*** - Definitions"
- ~~(ah) FAR 32.1007(b)(2), "Approval of Financing Requests"~~
- (w) DFARS 252.232-7003, "Electronic Submission of Payment Requests and Receiving Reports"
- (x) FAR 32.402~~(b)~~, "***Advance Payments for Non-Commercial Items*** - General"
- (y) MOCAS User Guide for Contract Administration, March 21, 2013
- (z) DFARS 252.242-7005, "Contractor Business Systems")
- ~~(am) DCMA INST 131, "Contractor Business Systems," December 31, 2011)~~
- (aa) DFARS PGI 242-7000(b), "Determination To Withhold Payments"
- (ab) DFARS 252.242-7005(e), "Withholding Payments"
- (ac) FAR 52.245-1, "Government Property"
- (ad) DCMA-INST 124, "Contract Property Management," ***March 31, 2014***
- ~~(ar) FAR 52.232-32(f)(1), "Title"~~
- ~~(as) FAR 52.232-32(f)(2), "Title"~~
- ~~(at) FAR 32.1009, "Title"~~
- ~~(au) FAR 52.232-32(f)(4), "Title"~~
- ~~(av) FAR 52.232-32(f)(5), "Title"~~
- (ae) FAR 45.101, "Definitions"
- ~~(ax) FAR 52.232-32(g), "Risk of Loss"~~
- ~~(ay) FAR 52.232-32(d), "Liquidation of Performance-Based Payments"~~
- ~~(az) FAR 52.232-32(e)(2), "Reduction or Suspension of Performance-Based Payments"~~
- ~~(ba) FAR 32.1010, "Risk of Loss"~~
- ~~(bb) FAR 32.1008, "Suspension or Reduction of Performance-Based Payments"~~
- ~~(bc) FAR 32.1009(c), "Title"~~

CHAPTER 1

POLICY

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

1.1.1. Performance-Based Payments (PBP) are available as interim contract financing when contract requirements allow for their use in accordance with FAR 32.10 ~~01~~(Reference (d)).

1.1.2. Performance-Based Payments events meet FAR 32.104 (Reference (e)) requirements.

1.1.3. Suppliers are paid appropriately for completion of contractually defined events.

CHAPTER 2

ROLES AND RESPONSIBILITIES

2.1. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR. The CMO Commander/Director shall:

2.1.1. Ensure contract administration actions comply with this Instruction.

2.1.2. Ensure only qualified personnel meeting applicable Defense Acquisition Workforce Improvement Act (DAWIA) certification levels in their specialized functional fields manage, verify compliance, and approve payment associated with contractually required PBP events.

2.1.3. Ensure the administrative contracting officer (ACO) is warranted in accordance with Federal Acquisition Regulation (FAR) 1.603 (Reference (f)), Defense Federal Acquisition Regulation Supplement (DFARS) 201.603 (Reference (g)), and DCMA-INST 129, “Warrants and Other Official Appointments” (Reference (h)).

2.2. CMO CONTRACTS DIRECTOR. The CMO Contracts Director shall:

2.2.1. Ensure the appropriate reviews of contract requirements, event criteria, and event completion are completed to ensure accurate and timely payment disbursement.

2.2.2. Review ACO recommendations regarding event criteria, event value, acceptance criteria, delivery/milestone schedules, etc., when the procuring contracting officer (PCO) requests DCMA *to* provide technical advice or assistance *with current and/or proposed contracts*. ~~Review includes verifying the proposal is within stated PCO limitations.~~ The CMO Contracts Director (or delegee) must recommend approval before the ACO forwards the recommendations to the PCO. The CMO Contracts Director may delegate this action to a level no lower than the contract team supervisor/leader.

2.3. ADMINISTRATIVE CONTRACTING OFFICER (ACO). The ACO shall:

2.3.1. Determine if the use of PBP, incorporated by FAR 52.232-32 (Reference (i) in the contract or delivery order as an interim financing method, is practical (FAR 32.10 ~~01(a)~~ (Reference (*d*)).

2.3.2. Limit recommendation(s)/negotiation(s) of new and/or revised PBP event criteria to parameters expressed by the PCO.

2.3.2.1. At no time shall the ACO negotiate/renegotiate/establish contract finance terms *which without written concurrence by the PCO. Contract administration functions not assigned* to the ACO remain the sole responsibility of the PCO in accordance with FAR 42.302(~~e~~) (Reference (*j*)).

2.3.2.2. For undefinitized contract actions (UCA), ACO actions in compliance with DCMA-INST 138, "Order Issuance and Definitization" (Reference *(k)*) and DCMA-INST 120, "Pricing and Negotiation" (Reference *(l)*) are limited by contract financing terms identified in the basic agreement.

2.3.3. Consider the contractor's experience, performance record, reliability, financial strength, business systems, and the adequacy of controls established by the contractor for completion of the subject contract by use of performance-based payment events/criteria.

2.3.4. For contracts effective after March 31, 2014, or modified to incorporate updated DFARS 232.10 (Reference (m)) wording revised April 21, 2014, the ACO shall determine adequacy of the contractor's accounting system and controls in accordance with FAR 32.10 (Reference (d)), FAR 32.503-6, Suspension or Reduction of Payments (Reference (n)), DFARS 232.10 (Reference (m)) and DCMA-INST 131, "Contractor Business Systems" (Reference (o)). Unless otherwise required, Contractor Business Analysis Repository (CBAR) input will be limited to the accounting system only.

2.3.5. Ensure DCMA functional specialists ~~supporting completion of PBP who provide support to complete PBP effort/contract(s)~~ follow FAR, DFARS, and contractual requirements.

2.3.6. Ensure PBP requests are processed promptly within the CMO.

2.3.7. For Chapter 3 Procedures that do not require contracting officer warrant authority, allow ACO actions to be accomplished by the contract administrator or procurement technician as delegated by the ACO.

2.4. ~~TECHNICAL FUNCTIONAL~~ SPECIALIST. The ~~technical functional~~ specialist (engineer, industrial specialist, quality assurance representative, *earned value management specialist, cost/price analyst*, etc.) shall:

2.4.1. Acknowledge and properly document all requests for ~~technical~~ support.

2.4.2. Acknowledge and/or coordinate a suspense date with the ACO to perform validation of supplier's completion of performance criteria or event/milestone which is being requested for payment.

2.4.3. Provide analysis of individual contract PBP criteria, events/milestones, timelines, etc., as requested by the ACO.

2.4.4. Notify the ACO and ~~technical functional~~ team lead of degrading trends in contractor technical performance.

2.4.5. Inspect/verify/validate contractor's PBP event completion, as ~~delegated requested~~ by the ACO, and provide a written report of the results.

CHAPTER 3

PROCEDURES

3.1. REVIEW OR ESTABLISH PBP CONTRACT REQUIREMENTS.

3.1.1. Upon receipt of a contract or delivery order containing FAR 52.232-32 (Reference (i)), the ACO shall:

3.1.1.1. Verify use of PBP is limited to fixed-price type contracts, orders and line items.

3.1.1.2. Ensure PBP are not (FAR 32.10 ~~04(e)~~ (Reference (**d**))) used for:

3.1.1.2.1. Payments under cost-reimbursement line items.

3.1.1.2.2. Contracts for architect-engineer services or construction, or for shipbuilding or ship conversion, alteration, or repair, when the contract provides for progress payments based upon a percentage or stage of completion.

3.1.1.2.3. Contracts awarded through sealed bid procedures.

3.1.1.3. Consider both monetary and delivery requirements (FAR 32.104 (Reference (e))).

3.1.1.4. Determine if the contractor agrees to the use of PBP for interim financing of the contract/order.

3.1.1.5. Ensure the contract/order contains a complete, fully-defined schedule of events, or performance criteria (FAR 32.10 ~~04(b)(1)~~ (Reference (**d**))) that are:

3.1.1.5.1. An integral and necessary part of contract performance.

3.1.1.5.2. Identified in the contract along with a description of what constitutes successful performance of the event or attainment of the performance criteria (FAR 32.10 ~~04(a)(1)~~ (Reference (**d**))).

3.1.1.6. Evaluate the payment amounts to ensure:

3.1.1.6.1. They are commensurate with the value of the performance event or criteria. *The 2014 Defense Procurement and Acquisition Policy (DPAP) Performance Based Payments Guide advises DCMA involvement in the contract and PBP event planning stage, especially if DCMA will administer the contract. It is recommended the ACO request pre-award PBP negotiation data that might be available from the PCO for use in this evaluation.*

3.1.1.6.2. They are not expected to result in an unreasonably low or negative level of contractor investment in the contract. ~~To~~ confirm sufficient investment, it is recommended the

ACO request expenditure profiles for current and previous years (FAR 32.10 ~~04(b)(3)(ii)~~ (Reference *(d)*)).

3.1.1.6.3. The total PBPs on the contract do not exceed 90 percent of the contract price, if on the whole contract; or 90 percent of the delivery item price if on a delivery item basis (FAR 32.10 ~~04(b)(2)(ii)~~ (Reference *(d)*)). Ninety percent is the maximum that can be provided and not the default level of PBP financing.

3.1.1.6.4. Are fully recoverable in the event of default (FAR 32.10 ~~04(e)~~ (Reference *(d)*)).

3.1.1.7. Confirm the dollar amounts and/or liquidation rate(s) are specified in the contract. The method of liquidation shall ensure complete liquidation no later than final payment (FAR 32.10 ~~04(d)~~ (Reference *(e)*)).

3.1.1.8. For contracts in Mechanization of Contract Administration Services (MOCAS), verify the R9 code “38” is identified. If missing, the ACO shall take action to have the code *inserted*.

3.1.1.9. Check CBAR eTool to see if status of the contractor’s accounting system is properly reported. If the contractor’s accounting system is identified as inadequate, the ACO shall contact the PCO to verify the adequacy of the contractor’s accounting system was verified prior to contract issuance and how to proceed pending contractor corrective action (s).

3.1.2. When Defense Finance and Accounting Service (DFAS) is the disbursement office, the ACO shall provide 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 accounting classification reference number (ACRN) worksheet completed by the ACO in Wide Area Workflow (WAWF) as the special payment instructions for the PBP and ignore ~~any~~ payment instructions posted elsewhere in MOCAS.

3.1.2.1. If there is more than one appropriation account or subaccount funding payment on the contract, the ACO shall provide DFAS instructions for the distribution of financing payments to the respective funds account (FAR 32.10 ~~04(e)~~ (Reference *(d)*)).

3.1.2.2. If the contract contains foreign military sales requirements, the ACO shall provide/*verify* DFAS instructions for distribution of the contract financing payments to each country’s account.

3.1.3. Basic Ordering Agreements (BOA) can contain clauses for both Progress Payment and Performance-Based Payment financing. Orders issued under a BOA can contain only one type of interim financing (Progress Payments or Performance-Based Payments) and each order is treated separately.

3.1.4. After contract award, the contractor has the option to propose use of PBP as a more favorable payment structure than the use of progress payments cited in the contract for interim contract financing. ~~OSD (AT&L), “Cash Flow Tool for Evaluating Alternative Financing Arrangements” (Reference (v)), provides instruction and an analysis tool address at the Defense Procurement and Acquisition Policy (DPAP) Cost, Pricing and Finance Web page. A link to the updated web address for the DPAP Performance Based Payments Analysis Tool can be found on the Resource Page. DFARS 232.10 (Reference (m)), provides a hyperlink to a PBP analysis tool located on the DPAP website in the Cost, Pricing & Finance section, Performance Based Payments – Guide Book & Analysis Tool tab.~~ All contracting officers shall utilize this tool ~~on new fixed-price type contract awards resulting from solicitations issued on or after July 1, 2011,~~ whenever PBP are contemplated for contract financing. This analysis tool will allow the ACO and contractor to compare the financial cost and benefits of using PBP versus customary progress payments.

3.1.5. When the PCO requests assistance to establish and/or modify existing PBP event terms, the ACO shall:

3.1.5.1. Recommend appropriate performance bases and performance-based finance payment amounts in accordance with FAR ~~subpart~~ 32.10 (Reference (d)).

3.1.5.2. Identify events/performance criteria that are not:

- The signing of the contract or contract modifications
- The exercise of contract options
- The passage of time
- Attendance at meetings, conferences, or seminars
- The expenditure of funds
- A surrogate for incurred costs

- Delivery of material, supplies, or services via DD Form 250, Material Inspection and Receiving Report
- Payment for cost-reimbursement line items
- Payment for accepted goods or services
- Payment for partial deliveries
- An incentive arrangement
- Equal payment for each event/performance criteria

3.1.5.3. Obtain approval of the proposed PBP events and performance-based finance payment amounts from the CMO Contracts Director (or delegated alternate) prior to negotiation with the contractor.

3.1.5.4. In accordance with DCMA-INST 134, “Boards of Review” (Reference **(p)**), obtain Boards of Review (BoR) approval before entering into negotiations with the contractor regarding:

3.1.5.4.1. Recommended performance-based events or criteria when the PCO did not originally establish these in the contract finance terms.

3.1.5.4.2. When the contract is proposed to be converted or has been converted from another form of financing to PBP.

3.1.6. When subsequent modifications to the contract/order are issued, the ACO must adjust the PBP schedule as necessary to reflect changes that resulted from the modification (FAR 32.10 ~~04(b)(5)~~) (Reference **(d)**).

3.1.7. The ACO shall notify the PCO when:

3.1.7.1. The events/performance criteria conflict with FAR requirements.

3.1.7.2. The contractor fails to complete a performance event as scheduled.

3.1.7.3. The contractor fails to make sufficient progress on a performance event.

3.1.7.4. The financial condition of the contractor has deteriorated jeopardizing contract completion.

3.1.7.5. The contractor enters into any financial arrangement that encumbers title to property identified in FAR 52.232-32(~~+~~), (Reference **(i)**).

3.1.7.6. A determination has been made that significant deficiencies exist in the contractor’s business systems.

3.1.7.7. A determination has been made that the contract has been over-financed.

3.1.7.8. Negotiations to modify the contract/order from progress payments to the use of PBP for interim financing are complete.

3.1.8. The ACO shall ensure classified information is not entered into any system not approved for processing classified information (DCMA-INST 552, “Information Security Program” (Reference **(q)**). ***For DCMA Special Programs Directorate (DCMAS), all input and data retention processes cited in this instruction that refer to unclassified data systems shall be conducted manually and/or follow DCMAS guidelines.***

3.2. EVALUATION OF CONTRACTOR CAPABILITY.

3.2.1. When considering the contractor's experience, performance record, reliability, financial strength, business systems, and the adequacy of controls established by the contractor for the administration of PBP, the ACO shall hold a post-award orientation conference with contractor personnel, procurement office personnel, ~~technical~~ **functional** specialists, etc., as needed, when recommended and/or considered beneficial in achieving clear understanding of all contractual requirements. The type of post-award contact will be at the ACO's discretion. Timeframes, type of post-award orientation, and documentation will be in accordance with DCMA-INST 118, "~~Contracts—Initial~~ **Contract** Receipt and Review" (Reference **(r)**).

3.2.2. The ACO should request the assistance of applicable DCMA ~~technical~~ **functional** specialist(s) for an evaluation/analysis of event criteria, event value, milestones, timelines, performance, etc.

3.2.2.1. The ~~technical~~ **functional** specialist should conduct adequate analysis to provide the ACO with required information by which to form a technical opinion while balancing analysis investment against potential contract savings and risk to the Government.

3.2.2.2. When answering requests for PBP analysis support, final submissions should contain adequate detail such that a non-technical acquisition generalist can understand the technical risks/issues related to performance criteria being evaluated.

3.2.2.3. The ~~technical~~ **functional** specialist shall ensure technical evaluations/reports are uploaded to contract files with additional notifications and/or uploads as required per function requirements.

3.2.2.4. The ~~technical~~ **functional** specialist should acknowledge and properly document all requests for technical support for PBP contracts/events by notification/copy of the request for assistance to his/her team lead and/or additional management (*e.g.*, Engineering and Manufacturing Group Chief), per function requirements, for their use.

3.2.3. For contracts effective after March 31, 2014, or modified to incorporate updated DFARS 232.10 (Reference (m)) wording revised April 21, 2014, the ACO should request the assistance of the cognizant Defense Contract Audit Agency (DCAA) auditor or DCMA functional specialist for an evaluation/analysis of the contractor's accounting system (DCMA-INST 131 (Reference (o))).

3.2.4. A Contract Financing Administrative Record, DCMA Form 325, may be used to document ACO risk evaluations (copy available via ~~Reference Page~~ **resource Web page**).

3.3. REVIEW OF REQUEST FOR PAYMENT.

3.3.1. The ACO shall make the determination whether the individual PBP event or performance criteria for which payment is requested has been successfully accomplished in

accordance with the contract (FAR 42.302~~(a)(13)~~ (Reference *(j)*)). If the ACO cannot verify completion of an event, the ACO should request the assistance of the appropriate ~~technical~~ **functional** specialist to substantiate successful completion/status of the performance event or criteria requested for payment.

3.3.1.1. When determined to be correct in accordance with the contract, FAR/DFARS, and additional process requirements cited in this Instruction, the ACO shall sign and date the PBP payment request before forwarding the request to the payment office for disbursement. When the ACO determines the payment request is incorrect (i.e., event or criteria incomplete, contains errors, requires verification, **missing incurred cost data (as applicable)**), the payment request will be returned to the contractor via WAWF.

3.3.1.2. The ACO shall not approve:

3.3.1.2.1. A PBP unless the specified event or performance criteria has been successfully accomplished in accordance with the contract (FAR 32.10 ~~07(d)~~ (Reference *(d)*)).

3.3.1.2.2. ***A PBP payment request missing content required by FAR 52.232-32 (Reference (i)). As part of his or her review of the submittal, the ACO shall ensure the contractor's certification is signed by an individual previously identified by separate documentation as authorized to bind the contractor (FAR 52.232-32 (Reference (i))).***

3.3.1.2.3. A PBP unless incurred cost data is provided as part of the event payment request for contracts effective after March 31, 2014, or earlier contracts modified to include updated DFARS 232.10 (Reference (m)) wording as revised April 21, 2014.

3.3.1.2.4. A PBP when there is evidence the contractor's cumulative incurred costs to date on the subject contract are less than the cumulative negotiated value of PBP events completed to date on the subject contract (DFARS 252.232-7012, Performance-Based Payments – Whole-Contract Basis (Reference (s)) and DFARS 252.232-7013, Performance-Based Payments-Deliverable-Item Basis (Reference (t))) for contracts dated after March 31, 2014, or modified to incorporate updated DFARS 232.10 (Reference (m)) wording revised April 21, 2014.

3.3.1.2.5. A PBP payment request when the FMS country code(s) input by the contractor to WAWF on the FMS Information tab conflicts with FMS country code data in MOCAS for use by DFAS for funds distribution/liquidation.

3.3.1.2.6. A credit PBP request. DFAS cannot process a contract financing request where the net value is a negative number. MOCAS does not recognize a credit contract financing request and subsequently stops all future contract financing requests because its logic indicates that a previous financing request was not paid. If the contractor owes the Government money, the ACO shall follow the procedures in DCMA-INST 104, "Contract Debts" (Reference (u)).

3.3.1.3. The ACO shall:

3.3.1.3.1. Ensure PBP requests are processed promptly within the CMO. ~~Prompt~~ **Standard** payment terms for PBP payment submittals are the later of the contractor entitlement date, if specified in the contract, or 14 days after the contractually designated billing office (DBO) receipt of a proper request for payment (DFARS 232.10 ~~0+~~ (Reference (m))).

3.3.1.3.1.1. Per FAR 32.001-Definitions (Reference (v)), a DBO is where the contractor first submits invoices and contract financing requests. A DBO can be a CMO, DFAS, Defense Contract Audit Agency, or other. The receipt date will be automatically entered on PBP requests submitted via WAWF.

3.3.1.3.1.2. Promptly return via WAWF all PBP payment requests found to have contractor cumulative incurred costs less than the cumulative negotiated value of PBP events completed to date when the contract contains DFARS 232.10 (Reference (m)), as revised April 21, 2014.

3.3.1.3.2. Specify, if needed, the amount to be paid, necessary contractual information, and the appropriation account(s) to be charged for the payment consistent with the distribution instructions in the contract (FAR 32.10 ~~07(b)(2)~~ (Reference (d))) and submit the approved payment electronically via WAWF to DFAS (DFARS 252.232-7003 (Reference (w))).

~~3.3.1.3.2.1. Cost and/or profit are not FAR or DFARS evaluation criteria for approval/disapproval/reduction/suspension of an individual PBP payment request.~~

~~3.3.1.3.2.2. Some profit may be included in a PBP contract/order. Submittal for payment of an individual PBP event should not have profit identified or included. In a Firm-~~

~~Fixed Price contract, every dollar of under-run eventually becomes additional profit earned by the contractor at contract completion.~~

~~3.3.1.3.2.1. Over-financing the contract by allowing funds disbursement in excess of contractor performance to date equates to advance payments and is not allowed in accordance with FAR 32.402(b) (Reference (x)). If the ACO makes a decision that this condition exists, the ACO is required to contact the PCO and contractor to renegotiate future PBP events/criteria on the subject contract, order, or delivery item.~~

3.3.1.4. The ACO should:

3.3.1.4.1. Ensure PBP requests for payment are not submitted more frequently than monthly. Multiple events or performance criteria **may** be on one PBP monthly payment submittal. Contracts/delivery orders with both U.S. and foreign military sales (FMS) disbursements are allowed one PBP payment submittal per type (U.S. or FMS) per month.

3.3.1.4.2. Verify the request for payment is a seven character alphanumeric starting with "PBPA" (for U.S. disbursements) or "PBPB" (for FMS disbursements). The last three positions are numeric and should be serially numbered (e.g., PBPA001, PBPA002). For contracts/delivery orders with both U.S. and FMS disbursements, the numbering is sequential by type (e.g., PBPA001, PBPA002, PBPB001, PBPB002) not mixed (e.g., PBPA001, PBPB002) (DCMA MOCAS Users Guide for Contract Administration, Chapter 2 (Reference (y))).

3.3.1.4.3. Prior to approval for contracts in MOCAS, review MOCAS to ensure sufficient funds are available under the ACRN(s) to be charged for the PBP request. For contracts with a disbursement office other than DFAS, the ACO should confirm funds status/availability by phone or email before proceeding. Proof of funds availability should be documented in the contract file.

3.3.1.4.4. Verify the amount paid by the contract payment office agrees with the amount approved by the ACO. In the event the paid amount differs from the approved amount, the ACO should contact the payment office to resolve the discrepancy.

3.4. WITHHOLD OF PAYMENT AMOUNTS.

3.4.1. When a business system is disapproved, DFARS 252.242-7005 (Reference (z)) requires the ACO to withhold payment against progress payments, PBP and interim payments billed under cost, labor-hour, and time-and-materials contracts.

3.4.2. The ACO shall:

3.4.2.1. Comply with DCMA-INST 131 (Reference (o)) when a decision to disapprove a contractor's business system due to the system containing significant deficiencies includes payment withholds in accordance with DFARS 252.242-7005 (Reference (z)).

3.4.2.2. Identify covered contracts (i.e., those containing DFARS 252.242-7005 (Reference (z)) and the applicable business systems clause) from which payments will be withheld and ensure they are listed in the final determination.

3.4.2.3. When applying a withhold to an indefinite delivery contract (IDC), apply the withhold to the IDC task/delivery order.

3.4.2.4. Use the withhold tracking spreadsheet provided in the Tools section of DCMA-INST 131 (Reference (o)) for tracking withholds for business systems.

3.4.2.5. Reduce the payment request amount by the appropriate withholding percentage and approve the lesser amount than was requested in the appropriate "Approved (\$)" block.

3.4.2.6. Enter payment instructions by ACRN and contract line item number (CLIN) on the ACRN WS Tab in WAWF and use the comment block on the miscellaneous information tab

in WAWF to record the amount requested, amount withheld, amount approved, and cumulative amount withheld to date, as well as the specific business system withhold percentage.

3.4.2.7. For contracts with a disbursement office other than DFAS, the ACO shall maintain withhold records in the official contract file and ensure the identified disbursement office is provided all information pertinent to the withhold action/amount.

3.4.3. Limitations on payment withholds and corresponding contractor billing withholds are outlined in DFARS PGI 242-7000(b) (Reference *(aa)*), DFARS 252.242-7005(e) (Reference *(ab)*), and DCMA-INST 131 (Reference *(o)*).

3.4.4. When a decision is made to discontinue withholds, the ACO will authorize the contractor *to* bill for previously withheld monies by public voucher, Standard Form (SF) 1034, Public Voucher for Purchases and Services Other Than Personal. The voucher number is to be a seven character alphanumeric starting with WTHxxxx.

3.5. PROPERTY TITLE AND RISK OF LOSS.

3.5.1. This section is not applicable to ~~property~~ *'contract property'* acquired under FAR 52.245-1, "Government Property" (Reference *(ac)*). ~~Instruction per DCMA-INST 124, "Contract Property Management" (Reference *(aq)* (*ae*)) shall be used. For information on title provisions for 'contract property' see DCMA-INST 124, "Contract Property Management" (Reference *(ad)*).~~

3.5.2. The ACO should note upon receipt of the first PBP request for payment, the Government becomes the vested owner of property acquired by the contractor for use on the contract/order or produced by the contractor ~~on~~ *as of* the date of the first PBP on the subject contract/order. ~~After that, the~~ *As an alternative, the* Government ~~assumes~~ *can assume* ownership when the property is or should have been allocable/charged to the contract/individual order (FAR 52.232-32~~(f)~~~~(1)~~ (Reference *(i)*)). Property (see FAR 52.232-32~~(f)~~~~(2)~~ (Reference *(i)*) for a full description) includes:

- Parts, materials, inventories, and work in process
- Special tooling and special test equipment
- Nondurable tools, jigs, dies, fixtures, molds, patterns, taps, gauges, test equipment, manufacturing aides, etc., not considered as special tooling
- Drawings and technical data required by contract/order as a deliverable

3.5.2.1. The contractor provided certification submitted as part of the contractor's payment request is normally sufficient evidence of property encumbrance status for review/use by the ACO. If notified of a change in property encumbrance status, the ACO shall take immediate action as described by FAR 32.10 ~~09~~ (Reference *(d)*).

3.5.2.2. ACO approval of the contractor's intent to sell PBP contract production scrap material is required ~~upon~~ *unless the ACO has received* written notification from the contractor

that there has been a significant reduction in the value of the property to which the Government has title (FAR 52.232-32~~(f)(4)~~) (Reference *(i)*)).

3.5.2.3. ~~The ACO will seek repayment when notified by the contractor that material acquired and/or produced by the contractor for use under the PBP contract/individual order experiences a significant reduction in value. The ACO may need to seek repayment when the value of material required and/or produced by the contractor is reduced below the amount of outstanding payments.~~

3.5.2.4. Contractor acquisition or disposal of property vested to the Government under a PBP contract/individual order requires prior approval by the ACO. The ACO shall take action to adjust contract/individual order payment terms or obtain a refund to the Government, as applicable, as compensation for the property (FAR 52.232-32~~(f)(5)~~) (Reference *(i)*)).

3.5.2.5. If property acquired or produced by the contractor for a PBP contract/individual order is determined to be lost, as defined by FAR 45.101 (Reference *(ae)*), the ACO shall attain a refund from the contractor per ~~FAR 52.232-32(g) (Reference (ax)) and FAR 52.232-32(d)~~ (Reference *(i)*)).

3.5.2.6. If the Government expressly assumes risk-of-loss responsibility for property acquired/produced by the contractor for a PBP contract/individual order, loss of that property as defined by FAR 45.101 (Reference ~~(aw)~~ *(ae)*) may require the ACO to reduce or suspend PBP payments in accordance with FAR 52.232-32~~(e)(2)~~ (Reference ~~(az)~~ *(i)*). (FAR 32.10 ~~10(e)~~ (Reference ~~(ba)~~ *(d)*))

3.5.2.7. Prior to and/or as part of contract closeout, ACO verification is required to ensure that title to residual property acquired/produced by the contractor for a PBP contract/individual order meets the requirements of FAR 52.232-32 (Reference (i)).

3.6. REDUCTION, ~~OR~~ SUSPENSION, OR RENEGOTIATION OF PBP.

3.6.1. The ACO shall apply the provisions of FAR 32.10 ~~08~~ (Reference *(d)*), regarding reduction or suspension of PBP by deduction from any payment under the contract/order when the contractor:

- Fails to make progress on the contract
- Is in unsatisfactory financial condition
- Is delinquent in payment of any subcontractor under this contract
- Fails to comply with a material requirement of the contract (FAR 32.10 ~~09(e)~~ (Reference *(d)*))

3.6.2. The ACO shall obtain approval from the CMO Contracts Director and *a* BoR ***recommendation*** (Reference *(p)*) before suspending PBP, when planning to suspend PBP for small businesses (e.g., small, small-disadvantaged, women-owned, HUBzone, service-disabled

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veteran owned) or when the suspension of PBP may have a negative impact on any contractor's ability to perform the contract through its physical completion.

3.6.3. The ACO may renegotiate a contract/order performance-based payment schedule, with PCO concurrence, when a Government-caused delay (e.g., stop work orders, change in scope, failure to provide GFM) prevents completion of individual events/criteria. Contractor progress awaiting total completion for payment may be divided into redefined criteria/events to allow for payment of accomplished effort. The ACO shall obtain approval from the CMO Contracts Director and a BoR recommendation (Reference (p)) before finalizing the renegotiated events/criteria/values. The CMO Contracts Director and BoR (Reference (p)) decision may be on an individual contract basis or contractor/CAGE/manufacturing facility basis, as needed.

GLOSSARY

ACRONYMS

ACO	administrative contracting officer
ACRN	accounting classification reference number
BOA	basic ordering agreement
BoR	Board of Review
CBAR	Contractor Business Analysis Repository
CMO	contract management office
DBO	designated billing office
DCMA-INST	DCMA Instruction
<i>DCMAS</i>	<i>DCMA Special Programs Directorate</i>
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Services
DPAP	Defense Procurement and Acquisition Policy
FAR	Federal Acquisition Regulation
FMS	foreign military sales
IDC	indefinite delivery contract
MOCAS	Mechanization of Contract Administration Services
PBP	performance-based payment(s)
PCO	procuring contracting officer
PGI	DFARS Procedures, Guidance, and Information
PLAS	Performance Labor Accounting System
<i>UCA</i>	<i>undefinitized contract actions</i>
WAWF	Wide Area Workflow