DCMA Manual 2101-02

Payments

Office of Primary Responsibility	**Product Acceptance and Proper Payments**
Effective:	February 14, 2019
Releasability:	Cleared for public release
New Issuance	
Implements:	DCMA-INST 2101, "Product Acceptance and Proper Payment"
Incorporates and cancels:	DCMA-INST 102, "Progress Payments Based on Costs," August 20, 2013 DCMA-INST 106, "Public Vouchers," July 31, 2013 DCMA-INST 113, "Voluntary Refunds," July 1, 2013 DCMA-INST 116, "Performance-Based Payments," August 8, 2014 DCMA-INST 136, "General Payment Support," September 24, 2014
Internal Control:	Process flow and key controls are located on the Resource Page
Labor Codes:	Located on the Resource Page
Resource Page Link:	https://360.dcma.mil/sites/policy/PA/SitePages/2101-02r.aspx
Approved by:	David H. Lewis, VADM, USN, Director

Purpose: This issuance, in accordance with the authority in DoD Directive 5105.64, "Defense Contract Management Agency (DCMA):"

- Implements policies established in DCMA-INST 2101.
- Provides and defines procedures for proper payments.

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TABLES

SECTION 1: GENERAL ISSUANCE INFORMATION

1.1. APPLICABILITY. This Manual applies to all Defense Contract Management Agency (DCMA) operational elements. The use of the terms Administrative Contracting Officer (ACO)/Contract Administrator (CA) are interchangeable except when warranted ACO functions are required.

1.2. POLICY. It is DCMA policy to:

a. Facilitate payment of invoices, vouchers, and special payment vehicles in accordance with applicable payment clauses and make contract payments on a timely basis.

b. Execute this manual in a safe, efficient, effective, and ethical manner.

SECTION 2: RESPONSIBILITIES

2.1. CONTRACTS DIRECTOR. The Contracts Director must:

a. Ensure personnel are qualified in their specialized functional fields by meeting the applicable Defense Acquisition Workforce Improvement Act (DAWIA) certification levels in their specialized functional fields. Ensure they manage, verify compliance, and approve contractually required performance-based events.

b. Ensure all ACOs are warranted in accordance with Federal Acquisition Regulation (FAR) 1.603, Defense Federal Acquisition Regulation Supplement (DFARS) 201.603, and DCMA Manual (DCMA-MAN) 4201-01, "Acquisition Warrants and Appointments."

c. Review ACO recommendations regarding related contract 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. The Contracts Director must recommend approval before the ACO forwards the recommendations to the PCO. The Contract Management Office (CMO) Contracts Director may delegate this action to a level no lower than the contract team supervisor/leader.

d. Provide written concurrence prior to the ACO submitting a request for early release from cash management to Defense Finance and Accounting Services (DFAS).

e. Provide documentation and reports to senior leadership within requested timeframes.

2.2. ASSIGNED LEGAL COUNSEL. The assigned legal counsel must review the Assignment of Claims documents for legal sufficiency.

2.3. ADMINISTRATIVE CONTRACTING OFFICER. The ACO must:

a. Manage the contract to ensure timeliness of payment based upon the contract's clauses.

b. Continuously maintain contract files to ensure they are current and accurate at all times.

c. Refrain from performing contract functions to which they have not been assigned, and that remain the sole responsibility of the PCO to perform in accordance with FAR 42.302(c). At no time negotiate/renegotiate/establish contract finance terms without written concurrence by the PCO.

2.4. CMO DD FORM 250 INPUT PERSONNEL. CMO DD Form 250, "Material Inspection and Receiving Report," designated input personnel must review receiving reports on a daily basis to identify the reports that did not process in Mechanization of Contract Administration Services (MOCAS). This list is normally called the recycle list which is available in Reveal, the report function for MOCAS. Information on how to obtain reports is in the MOCAS user guides available on the MOCAS home page. Link on the resource page.

2.5. FUNCTIONAL SPECIALIST. The Functional Specialist (engineer, industrial specialist (IS), quality assurance specialist, earned value management analyst, cost/price analyst, etc.) designated by the functional supervisor must:

a. Acknowledge and properly document all requests for payment support within 2 business days.

b. Acknowledge and/or coordinate a suspense date with the ACO within 3 business days to perform validation of supplier's completion of performance criteria or event/milestone which is being requested for payment.

c. Provide analysis of individual contract Performance-Based Payment (PBP) criteria, events/milestones, timelines, etc., as requested by the ACO.

d. Notify the ACO and other Functional Specialists team leads of degrading trends in contractor technical performance.

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

f. Perform 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.

g. Verify the contractor's estimate to complete (ETC) and/or develop an independent estimate at completion (EAC_{DCMA}) as requested by the ACO.

h. Assist the ACO in the timely review and analysis of the contractor's corrective action responses with regard to contract requirements.

i. Perform a review of quarterly limitation of payments reports submitted as required when financing is approved on incentive contracts.

SECTION 3: ASSIGNMENT OF CLAIMS

3.1. REVIEW ASSIGNMENT OF CLAIMS DOCUMENTS.

a. The ACO will process an assignment of claim when the contractor requests one in accordance with the procedures identified in FAR 32.805.

b. The ACO will ensure FAR 52.232-23, "Assignment of Claims," is included in the contract prior to processing a request. When contract performance is in a foreign country, ensure DFARS 252.232-7008, "Assignment of Claims (Overseas)," is included in the contract.

(1) The aggregate amount due must total $1,000 or more in order to process the assignment of claims.

(2) In order to protect the Government's interest, the ACO will review an assignment of claim in accordance with FAR 32.805, and DFARS 232.805.

(3) The ACOs must obtain assigned legal counsel review of the Assignment of Claims documents for legal sufficiency.

(4) FAR 4.1102(d)(3) requires assignees to be separately registered in the System for Award Management (SAM) database.

(5) When a contract contains FAR 52.232-33, "Payment by Electronic Funds Transfer – System for Award Management" or FAR 52.232-34, "Payment by Electronic Funds Transfer – Other Than System for Award Management" or the equivalent, the ACO must ensure the financial institution identified in the assignment is registered for Electronic Funds Transfer (EFT).

(6) To ensure that the assignee is paid using EFT, ACOs must require the financial institution to complete and submit a Standard Form (SF) 3881, "Automated Clearing House (ACH) Vendor/Miscellaneous Payment Enrollment Form," with the Assignment of Claims. The ACO will then forward the SF 3881 to DFAS Columbus. For contracts administered and paid using the MOCAS system, DFAS Columbus is responsible for inputting the appropriate MOCAS R9 remark (50 – when assignment is processed and 51 – when assignment is released).

c. If FAR 52.232-24, "Prohibition of Assignment of Claims," is included in the contract, the Government is prohibited from granting an assignment of claims.

3.2. PROCESS AN ASSIGNMENT OF CLAIM.

a. After reviewing the assignment documents, obtaining a legal review, and determining an assignment of claim is appropriate, the ACO will:

(1) Acknowledge receipt by signing and dating all copies of the Notice of Assignment (NoA) (DFARS 232.805(b)(i)).

(2) Forward copies of Assignment of Claims documents in accordance with DFARS 232.805(b)(i)(B).

(3) Notify the PCO of the assignment (DFARS 232.805(b)(i)(D)).

(4) Notify the payment office of the NoA. For contracts with payments made by DFAS Columbus, send an email to current email account, information located on the DCMA MOCAS/DFAS website. The link to the MOCAS/DFAS information website is located on the Resource Page of this Manual. ACOs will notify the payment office within 2 business days after receiving a NoA. A read receipt is required to ensure the payment office acknowledges receipt.

b. If the contractor or assignee inquires regarding the status of an assignment of claim that is under review, respond by specifying that it is under review and not accepted. Simple acknowledgement may trigger the assignee's entitlement to payment although the assignment package may yet be defective.

3.3. RELEASE OF ASSIGNMENT OF CLAIMS. The ACO should advise the contractor to inform the ACO when changes to the assignment occur. FAR 32.805(e) provides a list of circumstances when a release of assignment is required. Paragraph (h)(2)(ii) of FAR 52.216-7, "Allowable Cost and Payment," requires the contractor and each assignee, whose assignment is in effect at the time of final payment, to execute and deliver a release discharging the Government, its officers, agents, and employees from all liabilities, obligations, and claims arising out of or under the contract.

SECTION 4: CASH MANAGEMENT

4.1. EARLY RELEASE FROM CASH MANAGEMENT (EARLY PAYMENT).

a. The Prompt Payment Act of 1997 (Section 3903 of Title 31, United States Code (U.S.C.)), requires the Government to make payments in a timely manner: not early, not late, and requires the cash management of invoices (DoD 7000.14-R, "DoD Financial Management Regulations (FMRS)," Volume 10, Chapter 7). Payment must be made 30 days after a valid invoice is received, or by the payment date established in the contract. Otherwise, interest penalties will accrue. Public Vouchers are not subject to cash management. In addition, the Act requires agencies to effectively manage invoices, and allows an agency to make payment up to 7 days prior to the required payment date, or earlier, as determined by the agency on a case-by-case basis. Implementing regulations are found in Part 1315 of Title 5, Code of Federal Regulations (CFR) and FAR 32.9, "Prompt Payment."

b. When the application of DoD's cash management policy for a particular payment impairs the performance of a financially vulnerable contractor, the contractor may request the ACO to authorize early payment (also known as early release from cash management or waiver of cash management). The ACO must promptly review the contractor's request to determine if early release is warranted and weigh the benefits of making early payment. DFAS retains final approving authority for authorizing early payment.

c. When the ACO receives a request from the contractor for early release from cash management the following steps must be completed:

(1) Determine if early release from cash management is appropriate for an individual payment.

(2) Obtain CMO Contracts Director written concurrence prior to submitting the request to DFAS.

(3) Send approved requests for early release from cash management to the cognizant DFAS Contract Payment Customer Service Branch Chief detailing the reason for early release. DFAS Customer Service Branch Chief contact information may be found in the DFAS Order of Escalation document, which can be found on the DCMA MOCAS/DFAS Information site. The link to the MOCAS/DFAS information website is located on the Resource Page of this Manual.

4.2. EXCEPTIONS FROM CASH MANAGEMENT.

a. Small business concerns (identified as Type Contractor Code A on the MOCAS Master Address File) are exempt from the requirements of cash management pursuant to DFARS 232.906(a)(ii).

b. Contract financing requests, termination for convenience/default, economic price adjustments, refunds, settlement agreements, etc., are not subject to cash management.

SECTION 5: RECEIVING REPORTS

5.1. MATERIAL INSPECTION AND RECEIVING REPORT (MIRR) (DD FORM 250).

a. Payment cannot be made for contracts with receiving report requirements (DFARS 252.246-7000) until goods and services have been accepted and a record of the acceptance is received by the payment office.

b. Contractors must submit payment requests and receiving reports in electronic form. Wide Area Work Flow (WAWF) is the accepted electronic method for the submission of payment requests and receiving reports. Exceptions to the requirement for electronic submission are outlined in DFARS 232.7002. For contracts that have inspection and acceptance identified as origin, DCMA Quality Assurance Specialist accepts the conforming material or services after executing their surveillance requirements. Quality Assurance Specialist signs the paper copy for the DD Form 250 or digitally signs the WAWF Receiving Report, as applicable. Contracts received at destination will require the Contracting Officer Representative (COR) to sign for acceptance. The COR will be designated in the contract.

c. The DD Form 250 or WAWF Receiving Report must be signed, received, and processed in MOCAS before payment can be made on the corresponding invoice. There may be times when the CMO needs to take action on a receiving report in order to facilitate timely payment to contractors, minimize Prompt Payment interest and penalties, and enable contract closeout (MOCAS Manual, Part 1, Chapter 10, Material Acceptance Processing DD Form 250 Procedures).

d. DCMA Functional Specialist is responsible for inputting and processing all DD Form 250 receiving reports in MOCAS, whether submitted in WAWF or in paper copy, including receiving reports for Other Disbursing Office (ODO) contracts. With the exception of receiving reports accepted at destination, DCMA Functional Specialist must input both shipment and acceptance data. With respect to receiving reports of supplies or services accepted at destination, DCMA Functional Specialist is only responsible for inputting the shipment information. DFAS Columbus Contract Pay is responsible for obtaining destination acceptance documentation and inputting it in MOCAS.

e. If DFAS Columbus is unable to pay an invoice because the CMO has not received the receiving report or the receiving report is recycling because it did not meet WAWF validation requirements, the DFAS Columbus accounts payable representative will often request ACO assistance in determining if DCMA Functional Specialist will reject or process the receiving report. Timely action by all CMO personnel involved in processing receiving reports is necessary to prevent payment delays and accrual of prompt payment penalties.

5.2. PROCESSING RECEIVING REPORTS.

a. Absent an exception, contractors must submit DD Form 250 receiving reports in electronic form via WAWF. Exceptions to this requirement are set out in DFARS 252.232-7003. If those exceptions apply, CMO DD Form 250 designated input personnel must ensure accurate input of paper submissions of DD Form 250 receiving report data in MOCAS, normally within 24 hours of receipt.

b. Whether the receiving report data was submitted electronically through WAWF or in paper format, if the receiving report fails to process in MOCAS, the CMO must intervene. CMO DD Form 250 Designated Input Personnel must review the Rejected Electronic Data Interchange (EDI) Shipment Transactions Report (Reveal Report #UNMA010J) and the DD Form 250 Recycling Awaiting Actions Reports (Reveal Report #UNMC140A) on a daily basis to identify receiving reports that did not process in MOCAS.

c. The CMO DD Form 250 Designated Input Personnel initiates changes to the MOCAS database or returns the receiving reports to the contractor for correction, preferably within 24 hours in order to avoid accruing interest charges. Recycle and rejection actions are necessary to reinforce the contractor's contractual responsibility to prepare and distribute conforming receiving reports and to motivate contractors to prepare proper receiving reports for future shipments.

d. DD Form 250 Designated Input Personnel will research, annotate, and forward the Invoices Awaiting Origin/Plant DD Form 250 Report (F, M and Q Invoices) (also known as the "A List") (Reveal Report #UNMC01) or the Invoices Awaiting Origin/Plant DD Form 250 Report (Reveal Report #UYFD17) to the DFAS Columbus Payment and Research Division by noon each Wednesday and must be saved for 2 fiscal years (current fiscal year completed plus one) to support auditing of this key financial control activity. All entries on the "A List" must be annotated with the required action or action taken prior to submission. Submit the "A List" to the points of contact (POC) listed on the MOCAS DFAS Information page located on DCMA 360. These reports contain a complete listing of "A" coded invoices (invoices at DFAS Columbus awaiting source acceptance DD Form 250) input. The reports are received in Reveal (Reveal East; Reveal West) on Mondays and on the last day of the month. It is important to review the reports in a timely manner due to requirements of Part 1315 of Title 5, CFR, Prompt Payment Act.

e. When a valid receiving report is on hand, CMO DD Form 250 Designated Input Personnel must expedite input of the receiving report (DD Form 250). DFAS will not reject a contractor's invoice due to lack of source receiving report (DD Form 250), without first checking with the applicable CMO to determine if the receiving report is/was:

(1) In recycle status.

(2) Received and is in a backlog status - awaiting initial input.

(3) Not received.

(4) Received but returned to the contractor for correction.

f. DFAS will reject a contractor's invoice if the CMO does not acknowledge that a valid receiving report is on hand or if the CMO reports that the receiving report was rejected. After the valid receiving report has been processed in MOCAS, indicating acceptance of the product or services has been entered, DFAS will take action to pay the associated invoice.

5.3. AMENDED SHIPPING INSTRUCTIONS (ASI). When a recycle action occurs due to an invalid shipment and a copy of the ASI is received with the receiving report, the CMO DD Form 250 Designated Input Personnel must send a copy of the ASI to the ACO for action (e.g., issuance of a contract modification in accordance with FAR 42.302(a)(61), or Trusted Agent Request for Action). PCOs may issue ASIs to contractors without preparing formal contract modifications. Therefore, for Free on Board (FOB) origin shipments, where there is no ASI modification, the ACO may prepare a DCMA Form 1797, "Request for MOCAS Action/ Information" for the Procurement Technician to enter the amended ship-to/mark-for codes into MOCAS in order to clear the recycle list entry. The ACO must verify that the ASI is authentic and at no additional cost to the Government. Such verification may be performed by reviewing documentation received by the cognizant transportation officer or by contacting the PCO directly. For FOB destination shipments, where there is no ASI modification, the ACO will contact the PCO and the PCO will issue the necessary modification.

5.4. ERRONEOUS RECEIVING REPORTS. When a recycle action is caused by an erroneous receiving report prepared by the contractor, CMO DD Form 250 Designated Input Personnel must fully reject the receiving report back to the contractor within 24 hours. CMO DD Form 250 Designated Input Personnel will remove the associated record from the DD Form 250 Recycling Awaiting Actions Report and notify DFAS Columbus of the rejection so they may reject the associated invoice.

5.5. SHIPMENTS WITH MISSING COMPONENTS.

a. PCOs may authorize contractors to ship supplies with missing components. For items shipped with missing components, the contractor should enter the following information on the DD Form 250: the National Stock Number (NSN) or comparable identification, quantity, estimated value, and authority.

b. When components are missing from shipments as identified on a paper receiving report (DD Form 250), the CMO will provide a copy of the DD Form 250 and the contracting officer authorization letter to DFAS Columbus Contract Pay - Accounts Payable. This will ensure the voucher examiner at DFAS Columbus is aware a shipment was made with missing components and they can withhold the estimated cost of missing components from the associated payment. The ACO will verify the withheld funds are moved to the withhold line in lieu of a short pay from DFAS. When the missing components are shipped, funds previously withheld may be released for payment.

c. When processing receiving reports for shipments with missing components in WAWF, CMO DD Form 250 Designated Input Personnel will follow the procedures as stated below. These procedures apply when processing a receiving report that includes a withhold for conditional acceptance (where items will be shipped, repaired, reworked, or replaced after acceptance) and do not replace or supersede any previous guidance provided for withholds related to Section 2533a of Title 10, U.S.C., Berry Amendment requirements.

5.6. RECEIVING REPORTS FOR SHIPMENTS WITH MISSING COMPONENTS. The receiver must annotate on the receiving record the following:

a. Shipment Advice Code A indicates the initial shipment involves missing components.

b. At the line item level, include the statement “Withhold Applied” along with the contract unit price and the total amount of all withholds applied to that unit price.

c. Either in the description field or as an attachment for each line item, include the reason for the withhold (e.g., Item shipped short the following components…, Waiver/Deviation number…), the withhold amount, and the authority for the withhold. The information at DFARS Appendix F, F-301(b)(15)(iv)(G), is required for items shipped with missing components. However, where the estimated value is different than the amount withheld, both the estimated value and the amount withheld must be provided.

d. If unit prices are included for Unique Identification purposes, include the contract unit price without withholds.

5.7. INVOICES FOR SHIPMENTS WITH MISSING COMPONENTS.

a. The contractor must bill the net of the contract unit price less any withholds. The invoice will include the words “Withhold Applied,” at the line item level, show the contract unit price and the total amount of all withholds applied to the unit price. The ACO must ensure that funds are properly withheld.

b. The same description or attachment detailing the withhold(s) at a line item level included with the receiving report must be included with the invoice.

5.8. RELEASING PREVIOUSLY WITHHELD AMOUNTS FOR SHIPMENTS WITH MISSING COMPONENTS.

a. After contractual requirements have been satisfied, the ACO may authorize the release of previously withheld amounts. Delaying release of previously withheld amounts may cause funds to cancel or affect timely payment and contract closeout. When contractual requirements upon which the withhold is based are not satisfied, and the ACO has received authority from the PCO, the ACO will issue a contract modification to adjust prices and deobligate associated funds. The ACO must document the rationale explaining the circumstances of the deobligation and include this in the modification.

b. Prior to issuing a deobligation modification, the ACO will submit a DCMA Form 1797 to DFAS Columbus Contract Accounting Report (see POC in the DFAS Order of Escalation document located on the Resource Page of this Manual) requesting removal of previously withheld funds from the withhold line for the associated line item.

SECTION 6: PAYMENT WITHHOLDS

6.1. IMPLEMENTING WITHHOLDS.

a. In addition to withholding payment for shipments with missing components, some contract clauses authorize the ACO to temporarily withhold payment pending completion of certain contractual requirements (e.g., subline items not separately priced, technical data) or when it is necessary to protect the Government against potential risk of harm. Since payment withholds may not apply to all types of contracts, it is important for the ACO to review the terms and conditions of contract clauses and understand the conditions for withholding payment.

b. Generally, temporary payment withholds are implemented by issuing a withhold decision against affected contracts. The decision must reference the specific contract clause that authorizes withholding of payments, indicate the effective date of the withhold, identify conditions of the withhold and any specific requirements for the contractor to follow, and identify any action required by the DFAS payment office. The ACO must ensure the Defense Contract Audit Agency (DCAA) is provided a copy of the withhold decision information is made available for processing of cost vouchers. DCAA must be notified with a list of contracts and the percentage being withheld in order to apply a withhold.

6.2. WITHHOLDS AGAINST PROGRESS PAYMENTS OR PERFORMANCE-BASED PAYMENTS.

a. When processing a withhold against a request for a progress payment or a request for performance-based payment, the ACO will reduce the approved amount of the request and record the amount withheld, as well as the cumulative amount withheld to date, in the comments block of the miscellaneous information tab in WAWF.

b. Contractor Business Systems disapprovals can result in payment withholds if the ACO identifies significant deficiencies in one or more systems in accordance with DFARS 252.242-7005(d).

c. DCMA-MAN 2301-01, "Contractor Business Systems" provides detailed information on the approval and disapproval process.

6.3. WITHHOLDS AGAINST COST-REIMBURSEMENT CONTRACTS. The ACO will instruct the contractor to show the amount withheld on current billings, as well as the cumulative amount withheld to date for the specific contract.

a. The ACO will perform the following special considerations for withholding requirements as listed below:

(1) Time and materials (T&M) contracts require Government surveillance of contractor performance to give reasonable assurance that efficient methods and effective cost controls are being used. ACOs should request periodic audits of contractor's billings and periodic floor checks by the contract auditor. Audits should verify that costs are tracked to the appropriate

project tasks, contract line item, cost incurred, and payment made during the funds appropriation period of availability.

(2) Payments under Time and Materials/Labor Hour (T&M/LH) contracts authorize the ACO to unilaterally modify the contract to withhold up to 5 percent of the billing amount (up to a maximum of $50,000) from the contractor's billings for direct labor hours. Normally, there should be no need to withhold payment for a contractor with a record of timely submittal of an Assignment and Release of Claims (FAR 52.232-7(g)).

(3) For orders placed under Basic Ordering Agreements (BOAs) (FAR 16.703), withhold requirements apply separately to each order under the BOA, since each order is a separate contract.

(4) For an Indefinite Delivery Contract (IDC), contracts withhold requirements apply to the basic contract.

b. Cost-Plus-Fixed-Fee Contract payments must be made as specified in the contract schedule. The ACO must perform special considerations for Cost Plus Fixed Fee Contracts (CPFF). CPFF contracts include two basic forms. Withholds must be administered using the follow guidelines:

(1) When the contractor completes performance within the estimated cost as a condition for payment of the entire fixed fee, the ACO must pay the contractor the full fee. However, if the actual cost exceeds the estimated cost before accomplishing the goal or target, the Government may require more effort without increasing the fee, provided the Government increases the estimated cost.

(2) The ACO must pay the contractor the fixed fee at the expiration of the agreed upon performance time period, provided the contractor submits a statement that the level of effort specified in the contract has been expended in performing the contract and the Government considers the contractor's level of effort to be satisfactory. Renewal for further periods of performance is a new acquisition that requires new cost and fee arrangements.

(3) In accordance with FAR 52.216-8(b), the fixed fee must be paid as specified in the contract schedule and the ACO must withhold no more than 15 percent of the contract total fixed fee or $100,000, whichever is less, to protect the Government's interest.

(4) The ACO must review the payment instructions and schedule for fee withhold instructions that may have been included in the contract by the PCO.

(5) All fixed fee amounts withheld should be paid after the contractor has completed all administrative requirements in addition to contract performance.

(6) As an alternative, the ACO may elect to pay the contractor the full fixed fee requested at the beginning until the contractor has received 85 percent of the total fixed fee. All

remaining fixed fee payment request amounts are withheld to retain 15 percent or no more than $100,000 of the total fixed fee in compliance with FAR 52.216-8(b).

c. The ACO must perform reviews of contractor appeals on auditor's notice of contract costs suspended and/or disapproved. If the contract auditor has issued a notice of contract costs suspended and/or disapproved to the ACO and the contractor disagrees, the contractor may:

(1) Submit a written request to the ACO to consider whether the unreimbursed costs should be paid and to discuss the findings with the contractor.

(2) File a claim under the Disputes clause, which the ACO processes in accordance with the Disputes clause of the contract (FAR 52.233-1 and DCMA-MAN 2501-09, "Contract Claims and Disputes").

d. When the ACO's planned course of action is not consistent with the auditor's recommendations, the level of review should be based on the amount of disputed costs identified by the auditor. If the audit or DCAA Form 1, "Notice of Contract Costs Suspended and/or Disapproved," (commonly referred to as Form 1) is not specific, the ACO should consult with the auditor to determine the potential value of the disallowance.

e. The ACO must release 75 percent of the fee being withheld when the contractor completes the following requirements:

(1) Submits all final vouchers for prior year's settlements.

(2) Submits an adequate certified final indirect cost rate proposal for the year the contract was physically completed.

(3) Submits final patent and royalty reports when required by contract.

(4) Satisfies all other contract terms and conditions.

f. The ACO may release up to 90 percent of the fee withheld based on contractor past performance history that demonstrates timely submission of proposals and settlement of final indirect cost rates. Examples of fee withhold:

(1) If Total Fixed Fee is $150,000:

(a) Withhold: 15 percent x $150,000 = $22,500 (It is less than $100,000 maximum).

(b) If criteria in paragraph 6.3 (c) is met, the ACO must release 75 percent: $22,500 - (.75 x $22,500) = $22,500 - $16,875 = $5,625 Withheld.

(c) If criteria in paragraph 6.3 (d) is met, the ACO may release 90 percent: $22,500 - (.90 x $22,500) = $22,500 - $20,250 = $2,250 Withheld.

(2) If Total Fixed Fee is $2,000,000:

(a) Withhold: 15 percent x $2,000,000 = $300,000 (It is more than the $100,000 maximum) = $100,000 Withheld.

(b) If criteria in paragraph 6.3 (c) above is met, the ACO must release 75 percent: $100,000 - (.75 x $100,000) = $100,000 - $75,000 = $25,000 Withheld.

(c) If criteria in paragraph 6.3 (d) above is met, the ACO may release 90 percent: $100,000 - (.90 x $100,000) = $100,000 - $90,000 = $10,000 Withheld.

6.4. WITHHOLDS FOR SUBLINE ITEMS NOT SEPARATELY PRICED (NSP). When contracts include DFARS 252.204-7002, "Payment for Subline Items Not Separately Priced," the ACO may implement a temporary payment withhold until all NSP items are delivered. When implementing the withhold, the ACO must send a DCMA Form 1797 to the Trusted Agent requesting entry of a code "A" in the Withholding Code field for the specific Supply Line Item Record in MOCAS.

6.5. WITHHOLDS FOR RECEIPT OF DEFICIENT TECHNICAL DATA. When contracts include DFARS 252.227-7030, "Technical Data - Withholding of Payment" and the contractor has delayed submitting required technical data or has submitted deficient technical data, the ACO may implement a temporary payment withhold. When implementing a withhold, the ACO will send a DCMA Form 1797 to the Trusted Agent requesting entry of a code "B" in the Withholding Code field for the specific Supply Line Item Record in MOCAS.

6.6. PATENTS.

a. The patent rights provisions prescribed at FAR 27.305-2(e) and FAR 52.227-13 Patent Rights - Ownership by the Government, or DFARS 252.227-7038, Patent Rights Ownership by the Contractor (Large Business) require certain contractor reports and notifications. These reports should be forwarded to the ACO and the PCO. The ACO may withhold payments until a reserve not exceeding $50,000 or 5 percent of the contract amount, whichever is less, if the contractor does not comply with the requirements of the patent rights clauses of the contract.

b. The ACO should make final payment under a contract after the contractor delivers all disclosures of subject inventions, an acceptable final report, and all past due confirmatory instruments.

6.7. TRACKING WITHHOLDS. The ACO must track temporary payment withholds. Tracking mechanisms should be sufficient to allow the ACO to identify cumulative amounts withheld against each specific contract and cumulative amounts withheld for all impacted contracts.

6.8. DISCONTINUING WITHHOLDS. Discontinuation of payment withholds are generally implemented by issuing a unilateral modification against affected contracts. The unilateral modification discontinuing withholds should reference any previous modification numbers issued to implement the withholds and indicate why the withholds are being discontinued. The

ACO will request the CMO Trusted Agent to remove withhold codes from MOCAS, as applicable. The ACO must ensure that DCAA is provided a copy of the modification or determination letter with notice of discontinuation of withhold for processing of cost vouchers.

6.9. RELEASING PREVIOUSLY WITHHELD AMOUNTS.

a. The ACO may authorize release of previously withheld amounts when contractual requirements have been satisfied and the Government's interest is no longer at risk.

b. When authorized by the ACO, contractors may submit an invoice for previously withheld amounts. Withhold releases may be submitted directly in WAWF using the Invoice Only option.

c. An invoice for the release of a withhold must use a shipment number starting with WTH9 and the last three digits of the original shipment number.

d. The invoice must include the signed release from the contracting officer or authorized representative releasing the withhold attached to the invoice submission.

e. The invoice must identify the original shipment number where the release was taken, the Contract Line Item Numbers (CLIN) and the amount of the withhold being released.

SECTION 7: ACO APPROVAL OF INVOICES

7.1. INVOICES.

a. Invoices for fixed-price contracts for services that do not contain the MIRR clause (DFARS 252.246-7000) have shipment numbers beginning with the letters, SER, and if submitted in WAWF, they are created as 2-in-1 for Services transactions. This type of transaction is an invoice without a receiving report, which is routed through an approver before going to the payment office. In order to meet the requirement for acceptance or approval at FAR 32.905(c), such contracts contain language designating an approver of the services invoices. The designated approver may be an ACO, or it may be a specialist at the buying activity, a COR, or other customer entity. This subsection applies to those contracts that designate an ACO as the approver.

b. The Invoices Awaiting Approval Report (Reveal Report #UYFD19) lists all invoices on hand at DFAS Columbus awaiting ACO approval. ACOs must provide the DFAS Contract Pay, Accounts Payable Division with needed approvals or withholding authorization in a timely manner. Accounts Payable POCs may be found in the DFAS Order of Escalation. The ACO must:

(1) Annotate paper invoices received for processing with the receipt date in accordance with FAR 32.905(e).

(2) Review the invoice date to ensure the invoice is current.

(3) Establish a method of controlling and tracking invoices received for approval.

c. Prime Contractor's Timely Payment of Subcontractor Invoices. Due to the impact of day-to-day operations, prime contractors and subcontractors monitor the timeliness of contract payments. Prime contractors must establish procedures to ensure timely payment of their subcontracts with small business concerns pursuant to FAR 52.219-9(d)(15) and FAR 52.242-5. ACOs may exercise any of the following remedies when prime contractors fail to pay subcontractors in accordance with the terms and conditions of a subcontract or subcontract invoice:

(1) Recommend removal of the prime contractor from the provisional approval process for not following approved payment procedures, in coordination with DCAA (DFARS 242.803).

(2) Decrement billing rates, in coordination with DCAA (FAR 42.704(c)).

(3) Implement fee or payment withholding (FAR 30.604(i), DFARS 252.242-7005(e)).

(4) Suspend or reduce progress payments or performance-based payments (FAR 32.112, FAR 52.232-16(c) and 52.232-32(e)).

(5) Document poor subcontract management in contract performance ratings (FAR 42.1503(b)(2)(v)).

(6) Disallow unpaid subcontract costs for financing and interim payments (FAR 31.204(b)(1), FAR 42.8).

d. Invoices for services are different from invoices for products. A service invoice is created as 2-in-1 for Services transactions in WAWF and is sometimes approved by a COR or other designated representative on the receiving line.

(1) A certificate of conformance is acceptable proof of performance if the contract authorizes it. The designated signer for receiving the service must be assigned in the contract special payment instructions, Section G of the contract. MOCAS will not update the items received on a 2-in-1 invoice.

(2) A COR is normally designated by the PCO at the time of award. The ACO should check the contract to ensure the receiving block is signed by an authorized signer prior to approving the invoice in WAWF.

SECTION 8: PERFORMANCE-BASED PAYMENTS (PBP)

8.1. PBP CONSIDERATIONS.

a. Definition: Financing payments based upon the achievement of specific, measurable events or accomplishments that are defined and valued in advance by the parties to the contract.

b. PBPs:

(1) Are a customary method of contract financing.

(2) Are fully recoverable in the event of default.

(3) Meet FAR 32.104 requirements for providing contract financing.

c. PBPs are not:

(1) Payment for accepted goods or services.

(2) Payments for partial deliveries.

(3) Payments based solely on incurrence of costs.

(4) An incentive arrangement.

d. A contract (or individual order under an indefinite-delivery contract) can use either progress payments or PBPs but not both. A contract or individual order cannot use progress payments for one line item and PBPs for another. However, a contract or individual order can be modified to change the contract financing method from progress payments to PBPs, but both types cannot be used at the same time.

e. PBPs can be established on a whole contract or line item basis. When established on a line item basis, each PBP event must be associated with a specific line item.

f. For undefinitized contract actions (UCAs), ensure all actions are in compliance with DCMA-MAN 2401-01 “Negotiation Intelligence Procedures.” UCAs are limited by contract financing terms identified in the contract at time of award.

g. 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 before recommending the use of performance-based payment events/criteria.

h. For contracts effective after March 31, 2014, or modified to incorporate updated DFARS 232.10 wording revised April 21, 2014, determine adequacy of the contractor’s accounting system and controls in accordance with FAR 32.10, FAR 32.503-6, “Suspension or Reduction of Payments,” DFARS 232.10, and DCMA-MAN 2301-01.

i. If the contract contains Foreign Military Sales (FMS) requirements, the ACO will provide/verify DFAS instructions for distribution of the contract financing payments to each country's account.

j. A 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 PBP) and each order is treated separately.

8.2. DFAS ROLE ON PBP.

a. When DFAS is the disbursement office, 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.

b. DFAS policy is to use the accounting classification reference number (ACRN) worksheet completed by the ACO in WAWF as the special payment instructions for the PBP and ignore any payment instructions posted elsewhere in MOCAS.

c. If there is more than one appropriation account or subaccount funding payment on the contract, the ACO must provide DFAS instructions for the distribution of financing payments to the respective funds account (FAR 32.1004(c)).

8.3. ADMINISTRATION OF PBPs.

a. The ACO must ensure DCMA functional specialists follow FAR, DFARS, and contractual requirements when providing support to complete PBPs effort/contract(s).

b. Upon receipt of a contract or delivery order containing FAR 52.232-32, the ACO will:

(1) Determine if the contractor agrees to the use of PBPs for interim financing of the contract/order.

(2) Conduct an initial review to ensure data integrity within 30 days of the receipt date.

(3) Review all administrative requirements.

(4) Verify use of PBPs is limited to fixed-price type contracts, orders, and line items.

c. The ACO must ensure PBPs are not used for:

(1) Payments under cost-reimbursement line items.

(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) Contracts awarded through FAR part 14 sealed bid procedures.

d. The ACO must ensure the contract/order contains a complete, fully-defined schedule of events, or performance criteria per FAR 32.1004(b)(1) that are:

(1) An integral and necessary part of contract performance.

(2) Identified in the contract along with a description of what constitutes successful performance of the event or attainment of the performance criteria per FAR 32.1004(a)(1).

e. The ACO must ensure PBP requests are processed promptly and payment amounts are evaluated to verify:

(1) The payment request is commensurate with the value of the performance event or criteria. The 2014 Defense Procurement and Acquisition Policy (DPAP) Performance-Based Payments Guide (see Resource Page) 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.

(2) The payment is 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 32.1004(b)(3)(ii)).

f. The ACO will verify that 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). Ninety percent is the maximum that can be provided and not the default level of PBP financing.

g. The ACO will ensure funds are fully recoverable in the event of default (FAR 32.10).

h. The ACO must confirm the dollar amounts and/or liquidation rate(s) are specified in the contract. The method of liquidation must ensure complete liquidation no later than final payment (FAR 32.1004(d)).

i. For contracts in MOCAS, the ACO must verify the R9 code "38" is identified. If missing, the ACO will take action to have the code inserted.

j. The ACO must check the Contractor Business Analysis Repository (CBAR) e-Tool to see if status of the contractor's accounting system is properly reported or if the contractor has certified that the output of the accounting system is Generally Accepted Accounting Principles compliant. If the contractor's accounting system is identified as inadequate, the ACO must 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). If there is not a current review of the accounting system, or certification, one must be requested before proceeding with a payment request.

k. The ACO must notify the PCO when:

(1) The events/performance criteria conflict with FAR requirements.

(2) The contractor fails to complete a performance event as scheduled.

(3) The contractor fails to make sufficient progress on a performance event.

(4) The financial condition of the contractor has deteriorated jeopardizing contract completion.

(5) The contractor enters into any financial arrangement that encumbers title to property identified in FAR 52.232-32.

(6) A determination has been made that the contract has been over-financed. The PCO and contractor are to renegotiate future PBP events/criteria on the subject contract, order, or delivery item.

(7) Negotiations to modify the contract/order from progress payments to the use of PBPs for interim financing are complete.

(8) A determination has been made that significant deficiencies exist in the contractor's business systems. See DCMA-MAN 2301-01 for determinations.

l. After contract award, the contractor has the option to propose use of PBPs as a more favorable payment structure than the use of progress payments cited in the contract for interim contract financing. DFARS 232.10 provides a hyperlink to a PBPs analysis tool located on the DPAP website in the Cost, Pricing & Finance section, Performance-Based Payments – Guide Book & Analysis Tool tab. All contracting officers must utilize this tool whenever PBPs are contemplated for contract financing. This analysis tool will allow the ACO and contractor to compare the financial cost and benefits of using PBPs versus customary progress payments.

m. When the PCO requests assistance to establish and/or modify existing PBPs event terms, the ACOs should:

(1) Recommend appropriate performance bases and performance-based finance payment amounts in accordance with FAR 32.1002.

(2) Identify events/performance criteria that are not:

(a) The signing of the contract or contract modifications.

(b) The exercise of contract options.

(c) The passage of time.

(d) Attendance at meetings, conferences, or seminars.

(e) The expenditure of funds.

(f) A surrogate for incurred costs.

(g) Delivery of material, supplies, or services via DD Form 250.

(h) Payment for cost-reimbursement line items.

(i) Payment for accepted goods or services.

(j) Payment for partial deliveries.

(k) An incentive arrangement.

(l) Equal payment for each event/performance criteria.

n. The ACO will 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.

o. The Boards of Review (BoR) Matrix Chart and detailed procedures for the BoR process are provided on the Resource Page for DCMA-INST 2201 "Indirect Cost Control." The ACO must obtain BoR approval before entering into negotiations with the contractor regarding:

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

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

(3) 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 32.1002).

8.4. EVALUATION OF CONTRACTOR CAPABILITY.

a. The ACO should consider the contractor's experience, performance record, reliability, financial strength, business systems, and the adequacy of controls established by the contractor for the administration of PBPs. The ACO must 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-MAN 2501-01, "Contract Receipt and Review."

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

c. The 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.

d. 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.

e. The 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 their team lead and/or additional management (e.g., Engineering and Manufacturing Group Chief).

f. The functional specialist must ensure technical evaluations/reports are uploaded to contract files with additional notifications and/or uploads as required.

g. For contracts effective after March 31, 2014, or modified to incorporate updated DFARS 232.1003-70 wording revised April 21, 2014, the ACO should request the assistance of the cognizant DCAA auditor or DCMA functional specialist for an evaluation/analysis of the contractor's accounting system (DCMA-MAN 2301-01).

h. A DCMA Form 325, "Contract Financing Administrative Record" may be used to document ACO risk evaluations (copy available via Resource Page).

8.5. REVIEW OF REQUEST FOR PAYMENT.

a. The ACO must 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 and FAR 42.302(a)(13). 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 requested9.1
for payment. The ACO must utilize the PBP Checklist which can be found in the Performance Based Guide located on the Resource Page for this manual.

b. When the request is determined to be correct in accordance with the contract, FAR/DFARS clauses, the ACO must sign and date the PBP request, and then forward the request to the payment office for disbursement. When the ACO determines the payment request is incorrect (e.g., 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.

c. The ACO must not approve:

(1) A PBP request unless the specified event or performance criteria has been successfully accomplished in accordance with the contract pursuant to FAR Subpart 32.10. Allowing funds disbursement in excess of contractor performance to date equates to advance payments and is not allowed in accordance with FAR 32.402.

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

(3) A PBP 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.

(4) 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 must follow the procedures in DCMA-MAN 2501-10, "Contract Debts."

(5) A PBP request 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 Subpart 232.10 wording as revised April 21, 2014.

d. The ACO must:

(1) Ensure PBP requests are processed promptly within the CMO. Standard payment terms for PBP payment submittals are the latter of the contractor entitlement date, if specified in the contract, or 14 calendar days after the contractually designated billing office (DBO) receipt of a proper request for payment (DFARS 232.10). Per FAR 32.001-Definitions, a DBO is where the contractor first submits invoices and contract financing requests. A DBO can be a CMO, DFAS, DCAA, or other. The receipt date will be automatically entered on PBP requests submitted via WAWF.

(2) Process a PBP payment request in accordance with current DFARS 252.232-7012, "Performance-Based Payments –Whole-Contract Basis" and DFARS 252.232-7013, "Performance-Based Payments-Deliverable-Item Basis" for contracts dated after March 31, 2014, or modified to incorporate updated DFARS 232.10.

(3) Review for accuracy, then approve a PBP payment provided all information is correct.

(4) 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) and submit the approved payment electronically via WAWF to DFAS (DFARS 252.232-7003).

(5) Ensure a PBP request is processed in a timely manner. Multiple events or performance criteria may be on one PBP monthly payment submittal. Contracts/delivery orders with both U.S. and FMS disbursements are allowed one PBP payment submittal per type (U.S. or FMS) per month.

(6) 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).

(7) Prior to approval of a PBP 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 must confirm funds status/availability by phone or email before proceeding. Proof of funds availability must be documented in the contract file.

(8) 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.

8.6. WITHHOLD OF PAYMENT AMOUNTS.

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

b. The ACO must:

(1) Comply with DCMA-MAN 2301-01 when a decision is made to disapprove a contractor's business system due to the system containing significant deficiencies. This action can include payment withholds in accordance with DFARS 252.242-7005.

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

(3) When applying a withhold to an IDC, apply the withhold to the basic order.

(4) Use the withhold tracking spreadsheet provided on the resource page of DCMA-MAN 2301-01 for tracking withholds for business systems. MOCAS will not be used to track

these types of withholds. The ACO must request CMO trusted agent to input MOCAS Special Provision Code "U" for each contract from which payments will be withheld.

(5) Reduce the payment request amount by the appropriate withholding percentage and approve the lesser amount than was requested in the appropriate "Approved ($)" block of the withhold tracking sheet.

(6) Enter payment instructions by ACRN and 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.

(7) Maintain withhold records in the official contract file and ensure the identified disbursement office is provided all information pertinent to the withhold action/amount.

(8) Limitations on payment withholds and corresponding contractor billing withholds are outlined in DFARS PGI 242-7000(b), DFARS 252.242-7005(e), and Section 11 of this manual.

(9) When a decision is made to discontinue withholds, the ACO will authorize the contractor to bill for previously withheld monies by public voucher, SF 1034, "Public Voucher for Purchases and Services Other Than Personal." The voucher number is to be a seven character alphanumeric starting with WTH9.

8.7. PROPERTY TITLE AND RISK OF LOSS.

a. This section is not applicable to "contract property acquired or provided" under FAR 52.245-1, "Government Property." For information on title provisions for 'contract property' see DCMA-MAN 2301-01.

b. 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 as of the date of the first PBP on the subject contract/order. As an alternative, the Government can assume ownership when the property is or should have been allocable/charged to the contract/individual order (FAR 52.232-32). Property (see FAR 52.232-32 for a full description) includes:

(1) Parts, materials, inventories, and work in process.

(2) Special tooling and special test equipment.

(3) Nondurable tools, jigs, dies, fixtures, molds, patterns, taps, gauges, test equipment, manufacturing aides, etc., not considered as special tooling.

(4) Drawings and technical data required by contract/order as a deliverable.

c. 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 must take immediate action as described by FAR 32.10.

d. The ACO approval of the contractor's intent to sell PBP contract production scrap material is required 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)).

e. 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.

f. Contractor acquisition or disposal of property vested to the Government under a PBP contract/individual order requires prior approval by the ACO. The ACO should consult with the property administrator, and must ensure action is taken 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).

g. Unless 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 will require the contractor to repay DFAS in accordance with FAR 52.232-32.

h. Prior to and/or as part of contract closeout, the ACO must coordinate with the property administrator for property verification. The ACO will 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.

8.8. REDUCTION, SUSPENSION, OR RENEGOTIATION OF PBP.

a. The ACO must apply the provisions of FAR 32.10 regarding reduction or suspension of PBP by deduction from any payment under the contract/order when the contractor:

(1) Fails to make progress on the contract.

(2) Is in an unsatisfactory financial condition.

(3) Is delinquent in payment of any subcontractor under this contractor.

(4) Fails to comply with a material requirement of the contract (FAR 32.10).

b. The ACO must obtain approval from the CMO Contracts Director and a BoR recommendation before suspending PBP, when planning to suspend PBPs for small businesses, (e.g., small, small-disadvantaged, women-owned, Historically Underutilized Business (HUB) zone, service-disabled veteran owned) or when the suspension of PBPs may have a negative impact on any contractor's ability to perform the contract through its physical completion. See Resource Page for DCMA-INST 2201, "Indirect Cost Control" for specific information on BoRs.

c. The ACO may renegotiate a contract/order PBP schedule, with PCO concurrence, when a Government-caused delay (e.g., stop work orders, change in scope, failure to provide Government Furnished Material (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 must obtain approval from the CMO Contracts Director and a BoR recommendation before finalizing the renegotiated events/criteria/values. The CMO Contracts Director and BoR decision may be on an individual contract basis or contractor/Commercial and Government Entity (CAGE)/manufacturing facility basis, as needed.

SECTION 9: PROGRESS PAYMENTS BASED ON COST

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

a. During initial review of contracts, orders, and contract modifications, by following the contract receipt and review process in DCMA-MAN 2501-01, the assigned ACO must check the contract for the following:

- FAR 52.232-16, Progress Payments
- DFARS 252.232-7002, Progress Payments for Foreign Military Sales Acquisitions
- DFARS 252.232-7004, DoD Progress Payment Rates

b. The ACO should confirm the PCO provided distribution/payment instructions and ensure they are included in Section G of all contracts containing the progress payment clause. The distribution/payment instructions must comply with the requirements of DFARS PGI 204.7108. The ACO will:

(1) Issue a CDR using the PIEE Suite, as described in DCMA-MAN 2501-01 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.

(2) 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.

(3) Ensure contracts containing FMS meet the requirements of DFARS PGI 204.7108 and DFARS PGI 204.7108 limiting disbursement/payment/liquidation to contract-wide only.

(4) 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.

(5) The ACO must also verify the contractor's intent to request progress payments.

c. It is recommended that first-time contract awardees are considered high-risk candidates and a post-award conference should be held to ensure there is a clear and mutual understanding of all contract finance requirements. The type of post-award conference will be at the ACO's discretion. Timeframes, type, and documentation will be in accordance with FAR 42.5, "Post-Award Orientation" requirements.

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

e. 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" provides instruction and an analysis tool is available on the Resource Page for this Manual.

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

(2) The BoR Matrix Chart and detailed procedures for the BoR process are provided in the Indirect Cost Control General Practice for BoRs, located on the Resource Page for Indirect Cost Control, DCMA-INST 2201. The ACO will 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 negotiation will be part of the material presented to the BoR for review.

f. The customary progress payment rates for DoD contracts, including contracts that contain FMS requirements and contracts with foreign companies, are 80 percent of the contract price for large business, 85-90 percent for small business concerns, 90-95 percent for small disadvantaged business concerns, and 95 percent for contracts awarded before October 14, 2014, 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 DFARS 232.501-1
Small Business Concerns	90 percent	DFARS 232.501-1
Small Business Concerns	85 percent	FAR 52.232-16 Alternate I
Small Disadvantaged Business Concerns	95 percent	Contracts awarded before 10/14/2014 DFARS 232.501-1
• For contracts pre-dating 2001, ACOs should use rates identified by clause in effect at time of contract award or included in the contracts. At contract receipt, ACOs should confirm rate information is current in accordance with latest FAR/DFARS changes.		

Table 2. Contract Type Progress Payments Rates

Contract Type	Payment Rate	Regulation
Undefinitized Contract	80* percent	FAR 52.232-16(k)
Letter Contract	80 percent	FAR 52.232-16, Alternate II
***** Payment is limited to 80 percent of total costs incurred on work accomplished and will not exceed 80 percent of the UCA obligated amount until definitized or such lower limit is specified elsewhere in the contract.		

9.2. PROGRESS PAYMENT DISBURSEMENT EXCEPTIONS.

a. Unusual Progress Payments. The ACO must determine if the contract contains unusual progress payment provisions. Unusual progress payment provisions are identified as rates which exceed the customary rates referenced in FAR 32.501-2 and tailor surveillance efforts to address the unusual progress payment provisions/expenditures identified.

b. 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 DFAS Center to determine the best method for submitting requests for progress payments (FAR 32.502-4(e)). Possible causes for multiple progress payment rates include:

(1) Different phases in a program managed contract.

(2) Progress payment rate change during the life of the contract.

(3) Undefinitized work added to the contract.

(4) 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.

c. An effective solution is to establish a separate progress payment request (PPR) number series by segmenting the contract into lots. Phases of work/lots must be clearly severable and accounting segregation maintained. The following will apply in accordance with FAR 32.502-4:

(1) The contractor is instructed by the ACO or PCO to segregate the costs and liquidations for each lot separately.

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

(3) The ACO must ensure the lot number is on the PPR prior to signature in WAWF.

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

d. 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)). 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.

(1) The ACO should ensure a contract which authorizes "Lot" progress payments is never put on Post Pay Table in WAWF.

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

(4) The ACO must ensure the highest progress payment and liquidation rate is entered in the MOCAS Provisions Data Record.

e. Special/Specific Payment Instructions. The PCO is required to include 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 must review prime contracts (normally in Section G) and modifications to determine they contain specific payment instructions. Review Section G or H for further payment instruction.

(1) This section applies to contracts and orders that are funded by multiple accounting classification citations. Use DFARS PGI 204.7108 to validate the payment allocation. DFARS 252.204-7006, "Billing Instructions" is required in the contract per DFARS 204.7109 because DFARS 252.204-7006 provides a contractual requirement for cost accumulation at the contract line item level.

(2) Contract limitations excluding any fixed-price line items will be included in the MOCAS special payment instructions. For example, the contract may state that a fixed-priced 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) The ACO must provide DFAS distribution instructions consistent with contract liquidation provisions. If DFAS is not used, the ACO should coordinate with the identified disbursing office. 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.

f. FMS Purchases. The ACO must ensure the contractor submits separate 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 9.4) is maintained for the U.S. funds and the FMS funds for the life of the contract in accordance with DFARS 252.232-7002. For each submittal, the ACO must obtain supporting schedules from the contractor (FAR 52.232-16(g)(3)(ii)) showing the breakout of cost between U.S. and FMS requirements. If more than one country is involved, the schedule will show a breakdown for each country for which work is being performed. The ACO must 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).

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

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

(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, or limitations, for multiple First Articles.

(3) The ACO must ensure MOCAS reflects the First Article limitation in the progress payment master file (see sub-section 5.3).

h. Progress Payments Against BOA/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.

(1) The contract price of an unpriced order issued against a BOA is the maximum amount obligated by the contract as modified in accordance with FAR 32.501-3(a)(5).

(2) BOAs will be updated by the PCO or ACO, if the function has been delegated, to reflect changes in the progress payment rate.

(3) Orders issued before the rate change will not be modified to include the new rate.

(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)).

i. Incrementally Funded Contracts. The ACO must ensure the following:

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

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

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

j. 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).

k. UCA Limitation. Upon receipt and review of an undefinitized contract, the ACO must ensure FAR 52.232-16(k) is included in the contract. If not, the ACO must immediately inform the PCO of the omission. FAR 52.232-16(k) limits the amount of total costs incurred on work accomplished that can be billed up to 80 percent and the amount of unliquidated progress payment for UCAs up 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 will be segregated on PPRs from those costs eligible for higher progress payment rates (e.g., definitized work).

l. Mixed Type Contracts. Invoice submittals on contracts that contain cost-type line items, as well as firm fixed price (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:

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

(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).”

m. 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) will 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 will 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)). If an FPRA has not been established, the DCMA forward pricing rate recommendation or procedures under FAR 42.704 will be used.

n. 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 will immediately contact the PCO to replace all language regarding flexible progress payments with current provisions.

9.3. CONTRACTOR CAPABILITY TO PERFORM.

a. The ACO will determine and document (e.g., DCMA Form 325 or equivalent, pertinent report, applicable document) the overall capability of the contractor to perform work required by the contract/order (FAR 32.503-2(b)).

b. The ACO must comply with the following FAR 32.503-2(a) requirements:

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

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

(1) The contractor is capable of liquidating progress payments.

(2) The contractor's accounting system and controls are adequate for proper administration of progress payments.

d. 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)), such as recent pre-award surveys, cost studies, business systems reviews, other evaluations and/or coordination with other members of the team. This information may include the following:

(1) Financial analysis that addresses the contractor's overall liquidity, cash flow, backlog of work, and financial posture. Reports may be obtained from the DCMA Financial Capability Group (FCG) via e-mail.

(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 36 months to determine contractor's overall capability to perform.

(3) Functional 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.

(4) Contractor business systems status posted in the CBAR e-Tool.

e. Deficiencies found during business systems evaluations will be reported as outlined in DCMA-MAN 2301-01. When a business system is disapproved, DFARS 252.242-7005 requires the ACO to withhold payment against progress payments, PBP, and interim payments billed under cost, labor-hour, and time-and-materials contracts.

(1) A withhold tracking spreadsheet is provided in the Tools section on the Resource Page for this Manual and will be used by the ACO for purposes of tracking withholds for business systems. MOCAS will not be used to track these types of withholds. The ACO must request CMO trusted agent input MOCAS Special Provision Code "U" for each contract from which payments will be withheld.

(2) Limitations on payment withholds and corresponding contractor billing withholds are outlined in DFARS PGI 242-7000(b), DFARS 252.242-7005(e), and DCMA-MAN 2301-01.

(3) For IDCs, the ACO will administer progress payments under each order as if the order were a separate contract (FAR 32.503-5(c)).

f. When needed to determine the contractor's capability to perform or the contractor's progress, the ACO will request the IS or Industrial Engineer perform a baseline review or physical progress review to identify the value of items or services required by contract. A weighted value progress payment form (example DCMA Form 1503 and 1503a, "Weighted Value Progress Payment Charts" are available on the Resource Page for this Manual), 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 EAC as requested by the ACO (DCMA-MAN 2303-01, "Surveillance - Assess Risk").

g. When the contractor is a branch or segment of a multi-divisional company and a Corporate Administrative Contracting Officer (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 request and obtain the results of a financial capability review from the functional specialist for financial condition reviews, the individual ACOs who approve progress payments are responsible for compliance with FAR 32.503-3, before progress payments can be approved for a contract. For contractors that are separate legal entities under a parent company, contact the functional specialist directly for a determination of the contractors' financial capability. There must be close coordination between CACOs, divisional ACOs (DACOs) and ACOs.

h. 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.

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

j. 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.

k. 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.

l. If the contractor’s capability is at risk, a guaranty or other protective terms should be considered (FAR 32.501-5).

9.4. MOCAS PROGRESS PAYMENT MASTER.

a. The ACO must complete an initial DCMA Form 325, or equivalent, to determine initial risk (see paragraph 9.7 for risk assessment and review) 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 (see resource page for MOCAS DFAS Information site on DCMA page). The ACO will generate 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).

b. 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:

(1) Status Review (SR) Code. The 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.

(2) Review Date as well as Review Completed Date.

(3) First Article Dollar Limitation and Acceptance Status.

(4) Profit Percentage. Enter a profit percentage figure if the contract contains an Alternate Liquidation Rate (ALR). The ACO should enter the percent of profit commensurate with the development of the ALR. 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.

(5) Insert ALR for U.S. and FMS.

(6) Red Code - Reduction code requirements (U.S. and FMS). 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.

(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.

c. 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.

d. The ACO can retain a MOCAS YCPM UNFM70 screen print of the Progress Payment Master for data retention in the official electronic contract file.

9.5. PROGRESS PAYMENT REQUEST PREPARATION.

a. When reviewing a progress payment request, the ACO must verify the payment submittal has 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).

b. PPRs must be submitted and processed electronically in accordance with DFARS 252.232-7003, "Electronic Submission of Payment Requests And Receiving Reports" unless an exception applies. If the contract does not include this clause, the ACO should submit a contract deficiency report (CDR) to the PCO using the Procurement Integrated Enterprise Environment (PIEE) Suite. The contract does not have to be in MOCAS in order to initiate a CDR. However, the initiator must have access to PIEE. New users may self-register at PIEE website.

c. 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) 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.

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

e. The ACO should:

(1) Amend the Progress Payment Master to read "RED-CD-US: R" to stop automatic payment pending incorporation or correction of the missing/erroneous payment instruction(s).

(2) Ensure modifications against the contract or individual delivery order do not create retroactive changes to the distribution/payment instructions.

(3) 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.

f. 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.

g. The ACO must monitor distribution of delivery payments to ensure recoupment of unliquidated progress payment funds. The ACO will follow the applicable distribution/payment/ liquidation instruction(s). If DFAS does not distribute or recoup progress payments pursuant to the distribution instructions, the ACO will promptly contact DFAS to make the appropriate adjustments in MOCAS.

h. 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.

i. For acquisition category (ACAT) I and II contracts, the ACO must report the dollars paid in PPRs and DCMA EAC data of the most recent PPR to the cognizant PCO and DCMA PI (if assigned) at least every 6 months. Use local procedures for delivery to the PCO.

9.6. PROGRESS PAYMENT REVIEW.

a. 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 will:

(1) Ensure the contract is in MOCAS unless an exception DFARS 252.232-7003(c) applies.

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

(4) Ensure rates used for the progress payment request submitted by the contractor match the MOCAS data.

(5) Ensure that a Progress Payment Master is created in MOCAS.

b. When the ACO approves a payment, the post payment review box may be checked after considering the risk identified in the DCMA Form 325. 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.

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

d. When a withhold has been implemented on the contract due to a business system deficiency, the ACO will ensure the contract is not on the Post Pay Table in WAWF (DCMA-MAN 2301-01).

e. When approving a lesser amount for the progress payment, the ACO will 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.

f. If paper requests are authorized, the ACO will contact the payment office for submission instructions.

g. For contracts not in MOCAS, the ACO will manually conduct 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.

h. The ACO will not approve the initial PPR until the contractor provides a written description of the methods used for developing: SF 1443 (or WAWF equivalent), 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). 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 for this Manual.

i. If the ACO determines that manual review and approval of an individual PPR is required, the ACO will 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.

j. 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 Contractor).

(1) 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.

(2) Any approval action by the ACO in WAWF will override the codes in the Progress Payment Master.

k. If progress payments are to be stopped, the ACO will 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.

l. The ACO, or any member of the CMO team, are not allowed to make changes to a submitted SF 1443 (or WAWF equivalent), except for Item 27.

9.7. PERIODIC REVIEW, SCHEDULE AND SURVEILLANCE PLANS.

a. The ACO will develop a periodic review schedule and surveillance plan using data provided by functional specialist(s), including 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 for this Manual. 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 will 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). The ACO will revise the surveillance plan when the review results indicate a revision is warranted.

b. The ACO must use the EAC_{DCMA} maintained on Program Support Team (PST) Collaboration Site for contracts that belong to programs with a PST. For other contracts with the Earned Value Management System (EVMS) and progress payment clauses, the ACO must request the contractor to provide a valid EAC for each contract 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;" FAR 32.503-5, "Administration of Progress Payments;" and FAR 32.503-6, "Suspension or Reduction of Payments"). For these contracts, if the contractor has EVMS corrective action request (CAR) or disapproved business system, the ACO will task the EVMS Center to support a review of the EVMS standard for EAC development to affirm or that the EAC provided by the contractor is reliable.

c. The ACO will 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 will be updated to reflect changes in periodic review frequency (i.e., 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.

d. The different types of progress payment reviews are:

(1) Scheduled Periodic Review. Perform periodic review in accordance with the frequency established in paragraph 9.7.c. Periodic reviews normally are performed post-payment (see FAR 32.503-5(a)); however, if circumstances warrant, a pre-payment review may be appropriate.

(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. A PPSR includes everything an individual scheduled progress payment review has, except it is to be performed on a statistically valid sample (values, types, complexities) of all contracts receiving progress payments. 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. An audit of the progress payment process and technical reviews by DCMA, DCAA, and/or host nation audit personnel, as appropriate in accordance with current DFARS procedures, of the sample for further incorporation into the audit is part of the PPSR. It also addresses the contractor's financial condition. The potential for combining the PPSR with the contract auditor's billing system review may be considered at this time.

e. DCAA performs full accounting system, billing system, and MMAS reviews on 3-year cycles. The contractor's business systems are generally under continuous surveillance allowing DCMA functional 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; e.g., the PPSR audit.

f. A billing system review does not satisfy the requirements of a PPSR. It is recommended that a PPSR be aligned with 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 ensure error-free PPR submissions or compliance with the FAR progress payment clause(s).

g. An out-of-cycle prepayment review is appropriate in those high risk situations (FAR 32.503-4(b)) where there is an expectation of a loss; i.e., 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.

h. 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.

i. 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 will complete out-of-cycle post payment reviews within 45 days of the request. During the review, the ACO will 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.

j. Basic review requirements to satisfy FAR 32.503-5 include:

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

(2) Outstanding progress payments are capable of being liquidated.

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

(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.

(5) ETC methodology performed.

(6) Other systems that may be critical to progress payments are adequate.

k. If a review discloses an overpayment, the ACO will act promptly to remedy the contract debt situation in accordance with the provisions of FAR 32.6 and DFARS 232.6. 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)).

l. In special and limited situations, the ACO can waive periodic reviews. The ACO will clearly document this decision in the contract file. When a periodic review is waived, the ACO will update sections D and E of 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:

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

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

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

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

(1) Should demand unsecured payment amounts be returned.

(2) Ensure no more payments are made until the condition is corrected.

(3) May require additional protective terms per FAR 32.501-5 be included in the contract.

n. Upon completion of the review, the ACO will 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.

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

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

(2) Contractor fails to comply with a material requirement of the contract.

(3) The contractor experiences an unsatisfactory financial condition.

(4) Inventory allocated to the contract exceeds reasonable requirements.

(5) Delinquency in payment of costs of performance.

(6) Unliquidated progress payments exceed the fair value of undelivered work.

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

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

(b) Prepare a supplemental analysis in accordance with FAR 32.503-6(g).

(c) 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.

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

p. MOCAS computes the loss ratio calculations based on contractor submitted data, not WAWF. The ACO will 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:

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

(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.

q. The ACO will 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 will 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). Liquidation rate increases require a unilateral modification to the contract.

r. 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).

9.8. PROGRESS PAYMENT REJECTION/SUSPENSION.

a. The ACO team is notified of rejected PPR through Reveal Report UNFM72. The ACO team must identify errors and responsibility for corrections; i.e., Government or Contractor caused.

b. Any further processing of the PPR requires the ACO to use the "return to contractor" function in MOCAS. This is done after correction for a government caused delay or before correction for a contractor caused delay. The "return to contractor" function serves to make the PPR available in the WAWF Acceptor Rejected Transaction folder. After all corrections have been made, the ACO will re-sign and resubmit the PPR through WAWF for payment.

c. Progress payments may be suspended to the contractor based on unsatisfactory progress, financial condition, excessive inventory, or delinquency in payment to subcontractors (FAR 32.503-6).

d. A BoR is required:

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

(2) When an ACO considers suspension may have a negative impact on any contractor's ability to perform the contract through physical completion.

(3) When the ACO negotiates converting contract financing from one form to another.

e. The ACO will 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. The BoR Matrix Chart and detailed procedures for the BoR process are provided in the Indirect Cost Control General Practice for BoRs, located on the Resource Page for DCMA-INST 2201 "Indirect Cost Controls."

9.9. TRACKING DISBURSEMENT DATA.

a. 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.

b. Track Liquidations. The ACO will ensure a proper liquidation rate is used. FAR 32.503-8 through FAR 32.503-10 outline the conditions for using ordinary and ALR and explain how to compute them.

c. The ACO should ensure DFAS has not made payment unless it has received an ACO approved PPR.

d. 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 for further instructions.

9.10. PROGRESS PAYMENT MANAGEMENT.

a. The ACO will 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).

b. The ACO should be wary of fraud when receiving a progress payment request, especially requests for large dollar amounts. Contractor irregularities will be reported in accordance with DCMA-INST 906 “Reporting Fraud, Waste and Abuse.”

c. When the ACO discovers that a contractor who is receiving progress payments has gone into bankruptcy or is experiencing financial difficulties, the ACO will consult with assigned legal counsel and issue a Situation Report (SITREP), in accordance with DCMA-MAN 3401-05 “Defense Industrial Base Monitoring and Reporting.” The ACO will insert an ‘S’ code in the MOCAS Progress Payment Master ‘Stop Pay Code’ field (FAR 42.902(a)(3)).

d. 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.

e. 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.

f. 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.

9.11. ALTERNATE LIQUIDATION RATES.

a. Progress payments based on cost create a Liquidation Pool upon payment of the Government provided contract financing. When invoices are paid against delivered items under the progress payment, the Government recoups the progress payments through the deduction of liquidation from the invoice prior to payment. The ordinary method of liquidation requires that the progress payment rate and the liquidation rate must be the same at the beginning of the contract per FAR 32.503-8. It is important to note that the liquidation rate is different from the progress payment rate. Even though the numerical values of both rates are set equal to each other at the time of contract award, each rate has a different purpose, and each rate will affect contractor cash flow in different ways.

b. An Alternate Liquidation Rate (ALR) may be approved by the contracting officer under FAR 32.503-9. The objective of the ALR is to permit the contractor to retain earned profit elements of the contract prices for completed items in the liquidation process. FAR 32.503-9 permits the contracting officer to negotiate an ALR, but only during contract performance and only under certain conditions.

c. FAR 32.503-9(a)(1) puts the responsibility on the contractor to request a reduction in the liquidation rate. Therefore, unless the contractor submits a timely request for the use of the alternate liquidation method, the ordinary liquidation method will apply. The ACO/PCO may consider adjusting the liquidation rate if the following conditions are satisfied:

(1) The contractor requests a reduction in the rate.

(2) The rate has not been reduced in the preceding 12 months.

(3) The contract delivery schedule extends at least 18 months from the contract award date.

(4) Data on actual costs are available:

(a) For the products delivered or,

(b) If no deliveries have been made, for a performance period of at least 12 months.

(5) The reduced liquidation rate would result in the Government recouping under each invoice the full extent of the progress payments applicable to the costs allocable to that invoice.

(6) The contractor would not be paid for more than the costs of items delivered and accepted (less allocable progress payments) and the earned profit on those items.

(7) The unliquidated progress payments would not exceed the limit prescribed in FAR 52.232-16 “Progress Payments.”

(8) The parties agree on an appropriate rate.

(9) The contractor agrees to certify annually, or more often if requested by the contracting officer, that the alternate rate continues to meet the conditions of subsections 5, 6, and 7 of this section. The certificate must be accompanied by adequate supporting information.

d. The ACO should consider additional items not listed in the FAR. These considerations should include contract performance, delivery schedule, business system status, open CARs, and any other items that may be considered valuable in approving or denying the ALR request.

e. Implementation of the ALR requires a formal contract modification.

f. Once all the above conditions are satisfied, FAR 32.503-9(c) provides that the ACO must issue a contract modification to specify the ALR rate in the Progress Payments clause. FAR 32.503-9(c) further stipulates that adequate consideration for the ALR is already provided by the consideration included in the initial contract.

g. As stated at FAR 32.503-10(a) when establishing the ALR, the contracting officer must ensure that the liquidation rate is high enough to result in Government recoupment of the applicable progress payments on each billing and supported by documentation included in the administration office contract file.

h. Calculation of the ALR is governed by FAR 32.503-10, which specifies at FAR 32.503-10(b) that the minimum liquidation rate usually is the expected progress payments divided by the contract price. Expected progress payments are calculated by multiplying the total contract EAC_{DCMA} by the progress payment rate.

i. For purposes of computing the liquidation rate, the ACO may adjust the estimated cost and the contract price to include the estimated value of any work authorized but not yet priced and any projected economic adjustments; however, the contracting officer’s adjustment must not exceed the Government’s estimate of the price of all authorized work or the funds obligated for the contract. The EAC is also referred to as the “total estimated costs eligible for progress payments.” In accordance with FAR 32.503-10(b)(4), the ALR is generally expressed to tenths of a percent; however, decimals are rounded up to the next highest tenth, since rounding down would produce a rate below the minimum rate calculated. Therefore, the normal process for calculating the ALR as specified is as follows:

(1) (EAC X Progress Payment Rate) ÷ Contract Price = Alternate Liquidation Rate

(2) The following are examples of the computation. Assuming an estimated price of $2,200,000 and total estimated costs eligible for progress payments of $2,000,000: if the progress payment rate is 80 percent, the minimum liquidation rate should be 72.7 percent, computed as follows: $2,000,000 x .80 ÷ $2,200,000 = 72.7%

(3) If the progress payment rate is 85 percent, the minimum liquidation rate should be 77.3 percent, computed as follows: $2,000,000 x .85 ÷ $2,200,000 = 77.3%

j. The results of the above calculation represent the minimum percentage at which the liquidation rate can be set in order to recoup the unliquidated progress payments. The figure does not represent the required percentage. ALR can be set at any percentage between the minimum percentage and the Ordinary Liquidation Rate taking into account any anticipated contract price changes, contract performance, or other known impacts that should be taken into consideration.

SECTION 10: COMMERCIAL ITEM FINANCING

10.1. COMMERCIAL ITEM FINANCING CONSIDERATIONS.

a. Contract financing for purchases of commercial items is normally the contractor's responsibility. However, in some markets the provision of financing by the buyer is a commercial practice. In these circumstances, the contracting officer may include appropriate financing terms in contracts for commercial purchases when doing so will be in the best interest of the Government.

b. Commercial interim payments and commercial advance payments may be made under the following circumstances:

(1) Contract item financed is a commercial supply or service.

(2) Contract price exceeds the simplified acquisition threshold.

(3) PCO determines that it is appropriate or customary in the commercial marketplace to make financing payments for the item.

(4) Authorizing this form of contract financing is in the best interest of the Government.

(5) Adequate security is obtained.

(6) Prior to any performance of work under the contract, the aggregate of commercial advance payments must not exceed 15 percent of the contract price.

(7) Contract is awarded on the basis of competitive procedures or, if only one offer is solicited, adequate consideration is obtained (based on the time value of the additional financing to be provided) if the financing is expected to be substantially more advantageous to the offeror than the offeror's normal method of customer financing.

(8) Contracting officer obtains concurrence from the payment office concerning liquidation provisions when required by FAR 32.206(e).

c. Any contract financing arrangement not in accordance with the requirements of agency regulations or in accordance with FAR Part 32 is unusual contract financing and requires advance approval in accordance with agency procedures. If not otherwise specified, such unusual contract financing must be approved by the head of the contracting activity.

10.2. REVIEW REQUIREMENTS.

a. Contracts with commercial items financing must contain the paragraph entitled "Payment" of the clause at FAR 52.212-4, "Contract Terms and Conditions -- Commercial Items."

b. Each commercial contract financing clause must include:

(1) A description of the computation of the financing payment amounts.

(2) Specific conditions of contractor entitlement to those financing payments.

(3) Liquidation of those financing payments by delivery payments.

(4) Security the contractor will provide for financing payments and any terms or conditions specifically applicable thereto (see FAR 32.202-4).

(5) Unless agency regulations authorize alterations, the unaltered text of the clause at, FAR 52.232-29, "Terms for Financing of Purchases of Commercial Items."

c. Upon review of the contract, a 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.

d. Special attention must be paid to the security established and payments on commercial item financing contracts. Coordination with DFAS may be required dependent upon the complexity of how payments will be disbursed and applicable liquidation procedures as stated in the contract.

10.3. SECURITY.

a. Section 2307(f) of Title 10, U.S.C. and Section 4505 of Title 41, U.S.C., requires the Government to obtain adequate security for Government financing. The contracting officer must specify in the solicitation the type of security the Government will accept. If the Government is willing to accept more than one form of security, the offeror must be required to specify the form of security it will provide. If acceptable to the contracting officer, the resulting contract must specify the security.

b. FAR 32.202-4 details the different types of security that can be used in commercial item financing such as:

(1) Contractor's financial condition.

(2) Paramount Lien.

(3) Other assets as security.

(4) Other forms of security such as an irrevocable letter of credit from a federally insured financial institution; a bond from a surety, acceptable in accordance with FAR Part 28 (note that the bond must guarantee repayment of the unliquidated contract financing); a guarantee of

repayment from a person or corporation of demonstrated liquid net worth, connected by significant ownership to the contractor; or Title to identified contractor assets of adequate worth.

c. When determining whether an offeror's financial condition is adequate security, it should be noted that an offeror's financial condition may be sufficient to make the contractor responsible for award purposes, but may not be adequate security for commercial contract financing. FCG within DCMA's Cost and Pricing Center must perform all financial analysis within DCMA. See DCMA-MAN 2401-01 for more information on the FCG.

d. After contract award, the ACO responsible for approving requests for financing payments must be responsible for determining that the security continues to be adequate. If the contractor's financial condition is the Government's security, this contracting officer is also responsible for monitoring the contractor's financial condition.

10.4. PAYMENTS.

a. There are three types of payments for Commercial Item Purchases which are:

(1) Commercial advanced payments.

(2) Commercial interim payments.

(3) Delivery payments.

b. Contracts must provide that delivery payments must be made only for completed supplies and services accepted by the Government in accordance with the terms of the contract.

c. Contracts may provide for commercial advance and commercial interim payments based upon a wide variety of bases, including (but not limited to) achievement or occurrence of specified events, the passage of time, or specified times prior to the delivery date(s). The basis for payment must be objectively determinable. The clause written by the contracting officer must specify, to the extent access is necessary, the information and/or facilities to which the Government must have access for the purpose of verifying the contractor's entitlement to payment of contract financing.

d. The ACO is responsible for review and approval of contract financing requests. Unless otherwise provided in agency regulations, or by agreement with the appropriate payment official, the ACO is responsible for receiving, approving, and transmitting all contract financing requests to the appropriate payment office; and each approval must specify the amount to be paid, necessary contractual information, and the account(s) to be charged for the payment (FAR 32.206(d)).

e. Liquidation of contract financing payments must be on the same basis as the computation of contract financing payments. Financing payments computed on a whole contract basis must be liquidated on a whole contract basis; and a payment computed on a line item basis must be liquidated against that line item. If liquidation is on a whole contract basis, the contracting officer must use a uniform liquidation percentage as the liquidation method, unless the contracting officer obtains the concurrence of the cognizant payment office that the proposed liquidation provisions can be executed by that office, or unless agency regulations provide alternative liquidation methods.

f. In accordance with DFARS 232.206(g), installment payment financing must not be used for DoD contracts unless market research has established that this form of contract financing is both appropriate and customary in the commercial marketplace. When installment payment financing is used, the contracting officer must use the ceiling percentage of contract price that is customary in the particular marketplace (not to exceed the maximum rate established in FAR 52.232-30).

SECTION 11: PUBLIC VOUCHERS

11.1. PUBLIC VOUCHERS.

a. While DFAS makes payments, DCMA ACOs review and approve contractor's financing requests and final cost vouchers as well as perform payment administration in accordance with applicable contract payment clauses (FAR 32.909, FAR 42.302(a)(12), and DFARS 242.302(a)(12)). DCAA approves interim vouchers for provisional payment (DFARS 242.803(b)). Except as follows, all payment problems will be referred to DFAS Customer Service. ACOs should only become involved in payment issues if a delay in payment:

(1) Will impact a contractor's ability to execute the contract.

(2) Will endanger funds at risk for cancellation.

(3) Is due to a contract structure or contract provision issue.

(4) Is due to DCMA's failure to process a receiving report.

(5) Is related to a contractor's financing payment request or final voucher.

b. DCMA has established an initiative to share MOCAS data with participating contractors through the MOCAS Data Sharing Initiative (MDSI). This allows MOCAS data to be extracted from the Shared Data Warehouse through regularly scheduled data queries. The data extract is moved to a secure file transfer protocol server where the contractor may access their individual files.

c. DCMA and DFAS Columbus share in the operation and use of the MOCAS system. Except for ODO contracts, DFAS Columbus is responsible for paying contracts administered by DCMA.

(1) DCMA and DFAS Columbus entered into a Partnership/Agreement to jointly manage the contract payment process. Payment interaction between DCMA and DFAS Columbus occurs in the areas of MOCAS data integrity, payment processing, acceptance or approval of payment requests, and resolution of payment problems.

(2) Ensure that the contractor complies with FAR 52.232-20, "Limitation of Cost" or FAR 52.232-22, "Limitation of Funds" requirements, when applicable to cost-type contracts as stated in the contract.

(3) Ensure any problems involving fee withholding requirements are promptly identified and resolved by conducting periodic reviews of vouchers for fee withholdings. The ACO may randomly select vouchers to determine if fees are withheld and paid in compliance with the contract schedule and/or applicable regulations stated in the contract. However, DCAA is

responsible for random sampling of interim vouchers based on a risk assessment of the contractor to determine the sampling size and frequency.

(4) Ensure any problems associated with the withholding requirements or cost controls for T&M/LH contracts are promptly identified by conducting periodic reviews of vouchers for withholdings commensurate with performance risk.

(5) Obtain business system status updates and related concerns regularly from the DACO, CACO, and other ACOs. If necessary, the ACO must request additional system reviews with focus on areas of concern.

(6) Periodically, obtain information on the contractor's financial condition from the DACO, CACO, contract auditor, and other ACOs. If necessary, the ACO should plan additional financial surveillance reviews based on the risk related to the conditions and concerns identified. The ACO may request that DCMA FCG perform a post award financial capability review. Requests should be sent to the current e-mail address located in the global directory. It must include contractor name, CAGE code, parent company (if known), company POC, dollar value of liquidated obligations for active contracts, priority (routine or high-priority), known financial issues, and any other particular areas of concern, such as delivery or quality problems.

11.2. CONTRACTOR. The contractor submits payment requests and receiving reports electronically in WAWF system in accordance with DFARS 252.232-7003(b) when the clause is stated in the contract. DFARS 232.7002, identifies exceptions to electronic submission.

11.3. CONTRACT SPECIALIST. The ACO or CA must:

a. Review prime contracts and modifications to determine if they contain a requirement for Public Voucher (PV) submission or special payment instructions.

b. Review requests for payment when necessary to check accuracy and provide recommendations to the ACO when discrepancies are identified or ACO signature is required.

11.4. ACO. The ACO, in accordance with DoD 7000.14-R FMR Volume 10, Chapter 8, paragraph 080304 H, must review and approve:

a. The completion/final voucher under cost-plus fixed fee or other cost-reimbursement contracts.

b. Completion vouchers under T&M/LH contracts.

c. Vouchers and invoices where the contract requires approval by the ACO before payment.

d. Invoices for the release of withhold amounts previously instituted by the ACO.

e. Any payment request where a disbursing officer requires an ACO signature.

f. Contractor business systems and key processes that influence contract billing.

11.5. CONTRACT AUDITOR.

a. The contract auditor may be from DCAA, local Host Nation Contract Administration Services Audit Authority for DCMA International locations or current DFARS approved entity. The contract auditor is the authorized representative of the ACO as stated in DFARS 242.803, "Disallowing Costs after Incurrence," for the following actions:

(1) Receiving, reviewing, and approving interim vouchers including interim vouchers for commercial and non-commercial T&M/LH contracts. Interim vouchers will be received and either:

(a) Approved for payment and forwarded to the disbursing officer.

(b) Returned to the contractor for correction within 5 working days after receipt. The auditor's review of the interim voucher does not constitute an audit. Its purpose is to verify that the amounts claimed are not in excess of that which is due the contractor in accordance with the terms of the contract. The auditor's interim public voucher review is limited to assuring the claimed cost does not exceed contract ceiling, funding limitations, or precluded by contract terms. The auditor does not determine FAR cost allowability during interim public voucher review. Contract cost incurred issues are resolved during overhead and direct cost audits.

(2) Reviewing final/completion vouchers when requested by the ACO for contracts rated high risk (e.g., contractor business systems deficiencies, unsettled disallowances, defective pricing issues). The contractor may include the Cumulative Allowable Cost Worksheet (CACWS) as an attachment to their Fiscal Year Incurred Cost submission. The CACWS is equivalent to a final voucher review and includes a listing of individual contracts and cumulative costs incurred to date by each contract. It does not include profit. Funding limitations and cost ceiling must be considered when reviewing the CACWS to ensure that cumulative costs billed do not exceed the total estimated ceiling costs and/or current contract maximum funding level. The CACWS will be updated by the contractor following an agreement on rates. It is normally attached to the audit report along with the signed rate agreement letter.

(3) Issuing a DCAA Form 1 "Notice of Contract Cost Suspended and/or Disapproved," to deduct costs where allowability is questionable. The ACO may issue or direct the issuance of a DCAA Form 1 (DFARS 242.803(b)(ii)(B)).

(4) The contract auditor performs a limited role in the PV process. The contract auditor does not:

(a) Administer limitation of cost or funds requirements.

(b) Make judgments on fee issues.

(c) Approve final/completion vouchers.

(d) Make decisions regarding appeals on the notice of contract costs suspended and/or disapproved.

b. For international CMOs supported by a local Host Contract Administration Services Audit Authority, applicable international agreements determine the specific role of the contract auditor. See FAR 1.405, "Deviations Pertaining to Treaties and Executive Agreements" for additional information. DFARS 225.872-6 provides guidance for requesting audit support from qualifying countries and the United Kingdom. There are countries with a Memorandum Of Understanding (MOU) with the United States and a link to these MOUs can be found on the Resource Page for this Manual. Some MOUs have reciprocal agreements covering host country auditor support which require the ACO to provisionally approve interim vouchers. These agreements can change without notice and it is necessary for the ACO to review these agreements periodically. Where DCAA has audit presence and access to contractor's records in an outside the continental United States (OCONUS) environment, DCAA auditors provisionally approve interim vouchers.

(1) When DCMA performs contract administration in Canada, follow the cost-re-imbursement type contracts procedures stated in DFARS PGI 225.870-5.

(2) The contract auditor communicates to the ACO risks identified that affect the effectiveness of the contractor's billing system.

11.6. PROCEDURES FOR PROCESSING PUBLIC VOUCHERS.

a. The contractor must submit payment requests and receiving reports electronically in WAWF in accordance with DFARS 252.232-7003(b), unless an exemption exists outlined in DFARS 232.7002.

b. The ACO/CA must:

(1) Review prime contracts and modifications to determine if they contain special payment instructions. Special payment instructions are placed in the contract when appropriate to control expenditures, to prevent funds cancelations, and to align disbursements with actual performance.

(2) Check the three different types of Special Payment Instruction Indicator fields in MOCAS Provisions Data screen CT5803:

(a) A "Y" in the BVN-INST-RQD field indicates that special payment instructions exist for PVs BVN type payments requests. The actual instructions are included in the screen following the MOCAS Provisions screen.

(b) A "Y" in the PROGPAY-INST-RQD field indicates that special payment instructions exist for Progress Payment requests. The actual instructions are placed in the screen following the MOCAS Provisions screen.

(c) A "Y" in the SPCL-PAY-RQD field indicates that a specific CLIN has special payment instructions. The actual instructions are placed in the screen following the MOCAS Provisions screen.

(d) If the field contains an "N" that payment type will be prorated by distributing the payment request amount proportionally across all ACRNs.

c. Issue a CDR within the PIEE suite to request correction by the PCO if payment instructions are missing or not in compliance with DFARS/PGI 204.7108(b). Payment instructions can be found at DFARS PGI 204.7108(b) and (d), and when applicable must be inserted by the contracting officer in contract section G.

11.7. PROCESSING A FINAL VOUCHER. ACO must perform the following prior to approving the final voucher:

a. Ensure final rates have been settled or quick closeout rates have been established.

b. Verify that MOCAS obligation records accurately reflect funding shown in the contract and any subsequent funding modifications. Contract obligation records are reconciled to the contract and funding modifications.

c. Verify that total amounts claimed for reimbursement represent allowable costs and fees in accordance with the contract FAR 52.216-7 and FAR 52.232-7.

d. Compare the total disbursements in MOCAS with the contractor's previous paid amount stated on the final voucher. If the supporting documentation (DCAA CACWS, DCAA memorandum, or DCMA memorandum) show that the total claimed cost is allowable, the claimed fee is allowable in accordance with the contract, and the record of disbursements in MOCAS match the contractor's record of disbursements with the final voucher (SF 1035 or equivalent), the ACO may approve the final amount due.

(1) When discrepancies exist between the total in MOCAS disbursed amount and contractor's claimed previous paid amounts, the ACO should prepare a request for contract reconciliation (DCMA Form 1797) and send to DFAS Reconciliation office or other disbursing office.

(2) The CACWS is a summary schedule of cumulative allowable contractor costs for each flexibly priced contract through the last contractor fiscal year for which indirect cost rates have been settled. It contains sufficient details necessary to close contracts designated as physically complete in lieu of individual contract audit closing statements. The CACWS states the cumulative allowable costs from inception to date for each contract listed.

e. Ensure that all issues on suspended or disallowed costs are resolved (FAR 4.804-5(a)(7)).

f. Validate. Assistance in validating final vouchers can be obtained from the supporting Cost Price Analyst for low and moderate risk vouchers and from DCAA for complex or high risk vouchers.

g. Sign, date, and forward the final voucher to the payment office. ACO approval of a final voucher signifies that all administrative contract settlement actions are complete (FAR 52.216-7 and FAR 52.232-7).

h. Approve host nation interim PVs audited by the host nation reciprocal agreement audit agencies and supported by invoices audited and in compliance with DFARS PGI 225.870-5(2)(i). These invoices and PVs are forwarded to ACO for approval and transmittal to the payment office. See the Resource Page for this Manual for the current link for list of countries with reciprocal agreements.

i. Request audits from host nation using procedures outlined on the linked Resource Page from DCMA International. Direct contracts with provisional payments pending final audit at contract completion process in compliance with DFARS PGI 225.870-5(2)(ii). These invoices and PVs are forwarded to ACO for transmittal to the payment office.

11.8. NON-PROCUREMENT INSTRUMENT PAYMENTS. See DCMA-MAN 2501-08, "Grants, Agreements and Other Transactions."

SECTION 12: PAYMENT TERMS INCENTIVE CONTRACTS

12.1. PROCEDURES FOR COST PLUS INCENTIVE FEE (CPIF) CONTRACTS.

a. CPIF contracts should include the negotiated target cost, target fee, minimum fee, maximum fee, and a fee adjustment formula commonly referred to as a cost share ratio. If a high maximum fee is negotiated, the contract will also provide for a low minimum fee that may be a zero or, in rare cases, a negative fee.

b. The Government will pay the fee to the contractor as specified in the schedule. However, when the ACO determines performance or cost indicates that the contractor will not achieve target, the Government will pay on the basis of an appropriate lesser fee. At the same time, when the contractor demonstrates that performance or cost clearly indicates that the contractor will earn a fee significantly above the target fee, the Government may, at the sole discretion of the ACO pay on the basis of an appropriate higher fee (FAR 52.216-10(c)(1)).

c. Cost Over-Run. In situations where the contractor is experiencing cost growth (e.g., the contractor's estimate at completion or the DCMA independent estimate at completion are above the target cost), the ACO should work with the auditor and pricing specialists to use the best estimate at completion available to determine the forecast cost over- run. Furthermore, the ACO should decrease the contractor's target fee amount by applying the Government/contractor cost over-run shared ratio stated in the contract. The share ratio for cost over-run and under-run may be different. When total allowable cost is greater than the range of costs (maximum cost) within which the share ratio operates, the contractor is paid the maximum allowable cost authorized, plus the minimum fee. Training on CPIF contracts, examples, and tools for determining the impact of cost over-run on fee can be found on the Resource Page for this Manual under the Tools and Additional Guidance section.

12.2. FIXED PRICE INCENTIVE (FPI) CONTRACTS REVIEW OF QUARTERLY LIMITATION OF PAYMENT (QLOP).

a. The purpose of a QLOP is to reclaim overpayments by the Government in situations of cost under-run.

(1) Functional Specialist must analyze the QLOPs to identify trends or problem areas reflected in the estimates for effort to be completed in prospective periods of performance.

(2) Value and length of performance will have an impact on the funding provided in the contract.

(3) Generally, large complex incentive contracts will be incrementally funded. While this permits flexibility for the Government, it may have an impact on Contractor plans for performance.

(4) Status of the Contractor's accounting system and estimating system may impact the financial status of the FPI contract.

(5) QLOPs must be cumulative from the beginning of the contract and include:–

(a) Total contract price of all supplies delivered (or services performed) and accepted by the Government.

(b) Total costs (estimated to the extent necessary) reasonably incurred.

(c) Portion of the total target profit that is in direct proportion to the supplies delivered (or services performed) and accepted by the Government.

(d) Total amount of all invoices or vouchers for supplies delivered (or services performed) and accepted by the Government.

b. If the contract contains one or more CLINs that are the FPI contract type, the QLOP would be submitted for that individual CLIN, not the entire contract.

12.3. PROCEDURES.

a. Government Contract Administration Office analyzes QLOP and takes action (FAR 42.302(a)(18)) in accordance with FAR 32.6 (Contract Debts) to recover overpayments from the Contractor.

b. The ACO ensures QLOPs are submitted during contract performance.

c. The ACO ensures due date for the first submission of the QLOP (within 45 days after the end of each quarter of the Contractor's fiscal year in which a delivery is first made or services are first performed and accepted by the Government) is met.

d. The ACO ensures Contractor submits QLOP to the ACO with a copy to the PCO and the DCAA.

e. During a QLOP review, particular attention should be paid to:

(1) The initial estimate of contract cost at completion will change as the contractor performs. Some areas to consider:

(a) Determine reasons for variances from the initial estimate (including differences between direct and indirect rates used to establish target cost and actual direct and indirect rates).

(b) Identify potential under-run or overrun conditions.

(c) Determine if provisional billing prices should be adjusted downward for under-run conditions or if the PCO should be advised of a potential over-run position (note all adjustments in provisional billing prices should be coordinated with the PCO).

(d) If progress payments are authorized, determine reasons for variances between the QLOPs and cost of items claimed as delivered and accepted in progress payments.

(e) Status of Government Furnished Equipment (GFE), if authorized. Late delivery of GFE may have an impact on contract performance.

(f) Early identification of ineffective subcontract administration by the prime Contractor may prevent an overrun situation.

(g) The ACO should maintain a control record for QLOP, including ACO assessments and recommendations, and stored in the agency official contract file system.

(h) After the contract management team completes a review of the QLOP, the ACO should communicate the results to the PCO in a written format.

(2) Timely communication is required if the information is to be effective and valuable to the PCO. If the contractor fails to submit QLOP within the time period required by the contract, the ACO may consider withholding payments.

12.4. CALCULATION OF QLOP.

a. Share Ratio is represented as 50/50 (or some other combination that sums 100 percent) the first number is always the Governments (Government/Contractor).

b. Billing price for FPI CLINs at receiving report/DD Form 250 equals Target Price of the CLIN.

c. Calculation Example:

- Target Price $1 million
- Target Cost $900,000
- Target Profit $100,000
- Ceiling Price $1.2 million
- Actual Cost Incurred for the delivered item $800,000
- Share Ratio 50/50
- Cost under-run $100,000 (Target Cost $900,000 – Actual Cost $800,000)
- Share Ratio $100,000 x 50% = $50,000
- Price Earned by the Contractor
- Actual Cost + Target Profit + Share Ratio
- $800,000 + $100,000 + $50,000
- $950,000

d. Scenario Explanation:

- Contractor Invoiced $1 million at time of delivery
- Contractor Actually Entitled to $950,000

- Contractor Refunds the Overpayment (Government Share) $50,000

e. Formula: ([Target Cost- Actual Cost] * Share Ratio) + Actual cost + Target Profit = Price Earned by the Contractor.

12.5. FEE WITHHOLD. The ACO will:

a. Pay an incentive fee according to the schedule provided a withhold reserve not to exceed 15 percent of the total incentive fee or $100,000, whichever is less, to protect the Government interest.

b. Release 75 percent of all fee withholds under the contract after receipt of an adequate certified final indirect cost rate proposal covering the year of physical completion of this contract and the contractor has satisfied all other contract terms and conditions. Furthermore, the contractor must have submitted final vouchers for prior years.

c. Release up to 90 percent of the fee withholds under this contract based on contractor's timely submission and settlement of final indirect cost rate proposals (FAR 52.216-10(c)).

12.6. PAYMENT REVIEWS. As part of the payment reviews, the ACO should work with the DCMA PI and Earned Value Management (EVM) analyst to ensure that the results of the EVM and cost performance report/integrated program management report reviews are considered for contracts experiencing cost over-runs. In compliance with FAR 52.232-20, "Limitation of Cost," contractor must notify the ACO in writing 60 days in advance whenever costs are expected to exceed 75 percent of the estimated cost specified in the schedule or total contract performance cost will be greater or substantially less than had been previously estimated.

SECTION 13: VOLUNTARY REFUNDS

13.1 OVERVIEW. A voluntary refund is a payment or credit (adjustment under one or more contracts or subcontracts) to the Government from a contractor or subcontractor that is not required by any contractual or other legal obligation. A contract modification, rather than a check, is the preferred method for receiving a solicited or unsolicited refund before final payment.

a. The ACO credits the contract by issuing a modification to reduce the contract amount after consulting with the PCO. The ACO issues a modification to deobligate the funds. A deobligation is the downward adjustment of the obligation recorded in a contract document.

b. Refunds can be caused by factors such as termination of a part of a project, reduction in material prices, cost under-run, or correction of recorded amounts.

13.2. PROCEDURES FOR SOLICITING VOLUNTARY REFUNDS. Requests for voluntary refunds should only be considered after determining that no contractual remedy is readily available to recover the amount sought. If there is no remedy available, proceed as follows:

a. The ACO determines that one or more of the following conditions exists during or after contract performance:

(1) Contractor overcharged under a contract.

(2) Contractor inadequately compensated the Government for the use of Government-owned property.

(3) Contractor inadequately compensated the Government in the disposition of contractor inventory.

(4) Retention of the amount in question by the contractor or subcontractor would be contrary to good conscience and equity.

b. The ACO may prepare a package requesting a voluntary refund from a contractor. Prior to issuing a solicitation for a voluntary refund, the ACO must obtain approval from the CMO contracts director. Upon approval, the ACO will draft a memorandum to General Counsel detailing the need to solicit the voluntary refund.

c. CMO legal counsel must review the ACO’s memorandum, the contract, and related data to confirm that there are no readily available contractual remedies and to advise if the proposed action would jeopardize or impair the Government’s rights (DFARS PGI 242.7100).

d. Upon the completion of the review by CMO legal counsel, the ACO will send the voluntary refund request to the contractor.

e. If the contractor refuses to accept or acknowledge the debt, then the ACO will follow the procedures in the DCMA-MAN 2501-10 for further action.

13.3. PROCEDURES FOR ACCEPTING UNSOLICITED VOLUNTARY REFUNDS. The contractor notifies the ACO that a refund is due to the Government. The ACO completes a full review of the impact of the refund, and prepares a memorandum with the rationale for accepting the refund. The ACO submits the memorandum to CMO counsel for review.

a. CMO legal counsel will review the ACO's memorandum, the contract, and related data to confirm that there are no readily available contractual remedies and to advise if the proposed action would jeopardize or impair the Government's rights (DFARS PGI 242.7100).

b. The ACO notifies the contractor that the Government will accept the refund.

13.4. RECEIVING UNSOLICITED OR SOLICITED VOLUNTARY REFUNDS. As stated earlier, a contract modification, rather than a check, is the preferred method.

a. If the voluntary refund is submitted by check, the ACO advises the contractor to make the check payable to the agency that awarded the contract (DFARS PGI 242.7100).

b. The ACO prepares DD Form 1131. The refund check must be kept in a secure location until it is sent via certified mail with the DD Form 1131 to the payment office or, in the event of a subcontract, to the ACO for the prime contract.

c. Send a copy of the check and a letter identifying the voluntary refund with the contract number and where possible, the appropriation and account number to be credited, to the PCO. The ACO must send a copy of the letter identifying the voluntary refund with the contract number to the Region's Contracts Director.

d. The policy advocate is responsible for maintaining an electronic file of voluntary refunds received by the ACO. The file must include the letter from the ACO identifying the voluntary refund with the contract number.

GLOSSARY

G.1. Definitions.

Assigned Legal Counsel. Counsel who are directly assigned by the DCMA Office of General Counsel to serve as the primary legal advisor to a specific DCMA Contracting Officer.

BOA. A BOA is a written instrument of understanding (not a contact), negotiated between an agency, contracting activity, or contracting office and a contractor, that contains: terms and clauses applying to future contracts (orders) between the parties during its term, description of supplies or services to be provided, and methods for pricing, issuing, and delivering future orders.

Business Systems Reviews. See DCMA-MAN 2301-01 for guidance. Business system reviews involve the appropriate CACO, DACO, or ACO in consultation with the functional specialist or auditor evaluating the acceptability of the Contractor's business systems in accordance with the criteria stated in the applicable business system clause. The contractor business systems and reference containing system criteria are as follows: accounting system DFARS 252.242-7006 (c); earned value management system, DFARS 252.234-7002(b); estimating system, DFARS 252.215-7002 (d); material management and accounting, DFARS 252.242-7004 (d); property management system, DFARS 252.245-7003; and purchasing system DFARS 252.244-7001(c).

Commercial Advance Payment. See FAR 32.202-2. A payment made before any performance of work under the contract. The aggregate of these payments will not exceed 15 percent of the contract price. These payments are contract financing payments for prompt payment purposes (i.e., not subject to the interest penalty provisions of the Prompt Payment Act in accordance with FAR 32.9). These payments are not subject to FAR 32.4, "Advance Payments for Non-Commercial Items."

Commercial Interim Payment. See FAR 32.001. Any payment that is not a commercial advance payment or a delivery payment. These payments are contract financing payments for prompt payment purposes (i.e., not subject to the interest penalty provisions of the Prompt Payment Act in accordance with FAR 32.9). A commercial interim payment is given to the contractor after some work has been done, whereas a commercial advance payment is given to the contractor when no work has been done.

Cost Reimbursement Type Contract. See FMR Volume 10, Chapter 10, Section 100302. Cost reimbursement type contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total costs for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.

Cost-Plus-Fixed-Fee Contract. A cost-plus-fixed-fee contract is a cost-reimbursement inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract. This contract type permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs.

Cost-Plus-Incentive-Fee Contract. The cost-plus-incentive-fee contract is a cost-reimbursement contract that provides for the initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. This contract type specifies a target cost, a target fee, minimum and maximum fees, and a fee adjustment formula. After contract performance, the fee payable to the contractor is determined in accordance with the formula. The formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs, and decreases in fee below target fee when total allowable costs exceed target costs. This increase or decrease is intended to provide an incentive for the contractor to manage the contract effectively. When total allowable cost is greater than or less than the range of costs within which the fee-adjustment formula operates, the contractor is paid total allowable costs, plus the minimum or maximum fee.

Cost-Plus-Award-Fee Contract. A cost-plus-award-fee contract is a cost-reimbursement contract that provides for a fee consisting of a base amount (which may be zero) fixed at inception of the contract and an award amount, based upon a judgmental evaluation by the Government, sufficient to provide motivation for excellence in contract performance.

CACWS. The CACWS is a summary schedule of cumulative allowable contractor costs for each flexibly priced contract through the last contractor fiscal year for which indirect cost rates have been settled. It contains sufficient details necessary to close contracts designated as physically complete in lieu of individual contract audit closing statements.

DCAA FORM 1. Notice of contract costs suspended and/or disapproved, to deduct costs where allowability is questionable.

DCMA Form 1797. Form used for minor corrections to the contract submitted to the Trusted Agents and/or DFAS.

Final Voucher. In accordance with FAR 42.705(b) and FAR 52.216-7(d)(5), within 120 days after settlement of the final annual indirect cost rates for all years of performance on a physically complete contract, the contractor must submit a final (completion) voucher reflecting the settled amounts and rates that include consideration of the provisionally-approved interim vouchers. This last voucher should include all contract reserves, allowable cost withholdings, balance of fixed fee, etc. However, the amount of the final voucher when added to the total amount previously paid cannot exceed the total amount of the contract.

Interim Public Voucher. Interim Public Voucher refers to all vouchers submitted by the contractor with the exception of the final voucher.

Invoice. An invoice, as defined by FAR 2.101, is a contractor’s bill or written request for payment under the contract for supplies delivered or services performed.

Labor Hour Contract. A labor-hour contract is a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor.

Notice of Contract Costs Suspended and/or Disapproved (DCAA Form 1). DCAA has primary responsibility for approving interim vouchers for provisional payment (this includes approving the fee portion of vouchers in accordance with the contract schedule and ACO instructions) and sending them to DFAS or other payment office. As part of that obligation, DCAA is responsible for issuing DCAA Form 1 when allowability of the costs billed in the interim vouchers is questionable pursuant to DFARS 242.803. The ACO also has the authority to issue a DCAA Form 1. An ACO may issue or direct the issuance of a DCAA Form 1 on any cost when there is a reason to believe it should be suspended or disallowed.

Public Voucher (SF 1034). Used by contractor performing cost-reimbursement contracts to request payment for items and services other than personal.

Receiving Report. A receiving report is written evidence that indicates Government acceptance of supplies delivered or services performed.

Time and Materials Contract. A time-and-materials contract provides for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit and actual cost for materials unless an exception at FAR 31.205-26(e) and (f) applies.

Trusted Agent. Trusted Agents are individuals with extensive MOCAS knowledge who have completed trusted agent training and granted expanded capabilities to correct MOCAS database input errors.

GLOSSARY

G.2 Acronyms.

ACCS	Automated Cash Collection System
ACO	Administrative Contracting Officer
ACRN	Accounting classification reference number
ALR	Alternate Liquidation Rate
ASI	Amended Shipping Instruction
BOA	Basic ordering agreement
BoR	Board of Review
BVN	Bureau Voucher Number
CACO	Corporate Administrative Contracting Officer
CACWS	Cumulative allowable cost worksheet
CAGE	Commercial and Government Entity
CAR	Corrective Action Request
CBAR	Contractor Business Analysis Repository
CDR	Contract Deficiency Report
CFR	Code of Federal Regulations
CLIN	Contract Line Item Number
CMO	Contract management office
COR	Contracting officer representative
CPFF	Cost Plus Fixed Fee
CPIF	Cost Plus Incentive Fee
DACO	Divisional Administrative Contracting Officer
DBO	Designated billing office
DCAA	Defense Contract Audit Agency
DCAA Form 1	Notice of Contract Cost Suspended and/or Disapproved
DCMA Form 325	Contract Financing Administrative Record
DCMA Form 1797	Request for MOCAS Action/Information
DCMA-INST	DCMA Instruction
DD Form 250	Material Inspection and Receiving Report
DD Form 1131	Cash Collection Voucher
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Services
DPAP	Defense Procurement and Acquisition Policy
EAC_{DCMA}	Estimate at Completion
EDI	Electronic Data Interchange
EFT	Electronic Funds Transfer
ETC	Estimate to Complete
EVM	Earned Value Management

EVMS	Earned Value Management System
FAR	Federal Acquisition Regulation
FCG	Financial Capability Group
FFP	Firm Fixed Price
FMR	Financial Management Regulations
FMS	Foreign Military Sales
FOB	Free on board
FPI	Fixed Price Incentive
FPRA	Forward Pricing Rate Agreements
GFE	Government Furnished Equipment
HUB	Historically Underutilized Business
IDC	indefinite delivery contract
IS	Industrial Specialist
MIRR	Material Inspection and Receiving Report
MMAS	Material Management Accounting System
MOCAS	Mechanization of Contract Administration Services
MOU	Memorandum of Understanding
NoA	Notice of Assignment
NSP	Not separately priced
ODO	Other disbursing office
PBP	Performance-based payment(s)
PCO	Procuring contracting officer
PI	Program Integrator
PIEE	Procurement Integrated Enterprise Environment
POC	Point of Contact
PPR	Progress Payment Requests
PPSR	Progress Payment System Review
PST	Program Support Team
PV	Public Voucher
QLOP	Quarterly Limitation of Payment
SF	Standard Form
SF 1034	Public Voucher for Purchases and Services other than Personal
SF 1443	Contractor’s request for Progress Payment
SF 3881	Automatic Clearing House Vendor/Miscellaneous Enrollment Payment Form

SR	Status Review
T&M	Time and Materials
T&M/LH	Time and Materials/Labor Hour
TCO	Termination Contracting Officer
UCA	Undefinitized Contract Action
U.S.C.	United State Code
WAWF	Wide Area Work Flow

REFERENCES

Code of Federal Regulations, Title 5
DCMA Instruction 906 "Reporting Fraud, Waste and Abuse," October 29, 2014
DCMA Manual 2301-01, "Contractor Business Systems," TBD
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DCMA Manual 4201-01, "Acquisition Warrants and Appointments," January 17, 2019
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Secretary of Defense Memorandum, "Regulatory Relief Task Force," October 15, 2006
United States Code, Title 10, Section 801
United States Code, Title 10, Section 2533a
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