



Department of Energy  
Acquisition Regulation

No. 94-21

Date December 21, 1994

# ACQUISITION LETTER

## AUTHORITY

This Acquisition Letter is issued by the Procurement Executive pursuant to a delegation from the Secretary and under the authority of the Department of Energy Acquisition Regulation 901.301-70.

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## CONTENTS

### CITATION

FAR 42.708  
DEAR 942.708

### TITLE

Quick-closeout procedure  
Quick closeout procedures

- I. Purpose. The purpose of this Acquisition Letter is to temporarily increase the thresholds for the use of DEAR 942.708, Quick closeout procedures, and to initiate a three year pilot program which will gather information that will be used to assess the practicality of permanently revising the thresholds.
- II. Background. The Department of Energy Acquisition Regulation contains proscriptions on the use of quick closeout procedures. These proscriptions limit application of the quick closeout process to contracts where either indirect expenses are less than \$250,000 for an individual contract, or where all of a contractor's Department of Energy contracts involve indirect expenses of \$1,000,000 or less.  
  
The Procurement Executive has initiated a pilot program to study the Department's use of quick close out procedures. The objective of the pilot program is to examine the desirability of permanently modifying the existing quick close out thresholds. The results of the pilot program will be used to assess the need for and level of an individual contract threshold and/or agency wide thresholds. During this pilot program contracting officers will have greater flexibility in closing out contracts, and the number of contracts eligible for application of quick closeout procedures will be increased.
- III. Guidance. For the pilot program period, from October 1, 1994 through September 30, 1997, a single threshold of \$1,000,000 of indirect costs per Department of Energy contract is established for use of quick close out procedures. This Acquisition Letter transmits the reporting requirements for the pilot program and a class deviation which has been granted increasing the thresholds for application of the quick closeout procedures.

All contracting offices are to report, on an annual basis, to Headquarters Business Clearance Division (HR-522.1) concerning their use of quick closeout procedures. Reporting will commence October 1, 1995 and will cover the preceding 12 month period. An example is included as an attachment.

Close out goals will be assigned to each office as in past years.

- IV. Effective Date. This Acquisition Letter is effective on the date of issuance.
- V. Expiration Date. This Acquisition Letter is effective until October 1, 1998 unless canceled or superseded prior to that date.

Attachment

ANALYSIS OF QUICK CLOSE OUT RATES

The following shall be submitted for each closeout action:

- A. Contractor name;
- B. Contract(s) numbers retired using the quick close out procedure with the new threshold;
- C. For each contract:
  - (1) the contractor proposed rate/pool;
  - (2) Dollars allocated to that contract using proposed rates;
  - (3) the quick-closeout rate/pool; and
  - (4) dollars allocated to that contract using quick-closeout rate.

EXAMPLE

E. NORMUS CORPORATION FY9X

CONTRACT AC99-93HR12345

	INCURRED COSTS RATE	GOVT SHARE RATE	DOE SHARE RATE	OCO RATES	DOE SHARE
MATL OH	100,000	5%	\$25,000	4.80%	\$ 24,000
DIR MATL	\$2,000,000		500,000		
FACTORY OH	1,500,000	150%	375,000	147.00%	\$367,500
FACTORY BASE	1,000,000		250,000		
G&A	460,000	10%	115,000	9.95%	\$114,425
BASE	4,600,000		1,150,000		

FINDINGS AND DETERMINATION  
CLASS DEVIATION TO  
FEDERAL ACQUISITION REGULATION

I. Findings

A. Federal Acquisition Regulation 42.708, Quick close out procedures, contains the following requirement at subparagraph (a).

"The contracting officer responsible for contract closeout may negotiate the settlement of indirect costs for a specific contract, in advance of the determination of final indirect cost rates, if -

- (1) The contract is physically completed;
  - (2) The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant.
- Indirect costs will be considered insignificant when -
- (i) The total unsettled indirect cost applicable to any one contract does not exceed \$500,000; and
  - (ii) Unless otherwise provided in agency procedures, the cumulative unsettled indirect costs to be allocated to one or more contracts in a single fiscal year do not exceed 15 percent of the estimated, total unsettled indirect costs allocable to cost-type contracts for that fiscal year;"

B. There is no statutory basis for this requirement, nor for the dollar threshold.

C. The Department of Energy, as of June 30, 1994, has over 5,000 inactive contracts. Of these, over 3,300 have been inactive for more than six months. As the vast majority of these contracts are cost reimbursement in nature, using standard closeout procedures requires a final closeout indirect expense audit. The cognizant Federal agency responsible for conducting most of these final audits is the Defense Contract Audit Agency of the Department of Defense. That organization historically has placed final indirect expense audits at a low priority, and thus the lead time for such audits is as much as five years. Until these audits are complete, the contracts cannot be closed out, unless quick closeout procedures are used. The Department of Energy's budgetary restrictions also inhibit securing final indirect expense audits from the Department of Defense.

D. The purpose of the threshold in 48 CFR 942.708(a)(2) is to restrict contracting officers in making considered decisions concerning close out of contracts. In the original publication of the Federal Acquisition Regulation,

effective April 1, 1984, there was no threshold for authorizing quick closeout procedures; the use of quick closeout procedures was authorized if..."the amount of unsettled indirect cost to be allocated to the contract is relatively insignificant;". To continue the threshold at the present amount impedes the orderly closeout of contracts, imposes inordinate delays in closing out contracts, and thus inhibits contracting officers from settling contracts and possibly recovering moneys due the Government.

## II. Determination

A. The significant backlog of close out actions, the extensive costs involved in securing indirect expense audits, and the long periods of time required for the cognizant Federal agencies to conduct such audits, thus restricting the Department's ability to recover obligations which have not been spent by the contractor, necessitate that actions should be taken to close out contracts more efficiently.

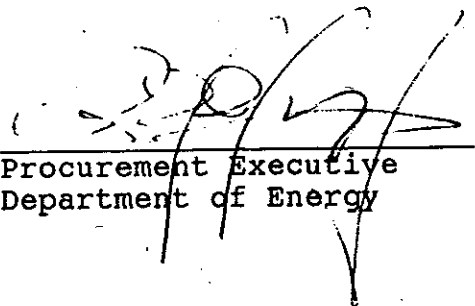
Therefore, the Department of Energy will carry out a three year pilot program in order to test greater use of the quick close out procedures as a way of reducing the cost and time involved in closing out completed contracts. During the course of this three year period, the threshold for use of quick close out procedures will be raised to \$1 million of indirect expenses to be reimbursed by a single Department of Energy contract; there will be no other limitation on the use of these procedures.

At the conclusion of this three year pilot period, the Department will assess any savings of time and money in the close out process as compared to the risk taken in closing out contracts without final indirect expense audits.

B. Therefore, in accordance with the authority vested in me by 48 CFR 1.404, Class deviations, I hereby grant a deviation, on a class basis, to 48 CFR 42.708, Quick closeout procedures, which restricts the use of quick closeout procedures to those contracts where indirect expenses to be reimbursed by the Department of Energy under a single contract will not exceed \$500,000 per contractor fiscal year, or where the indirect expense amount reimbursed by all contracts will not exceed 15 percent of the estimated, total unsettled indirect costs allocable to cost-type contracts for that fiscal year.

C. In lieu of this requirement from which the deviation is granted, quick closeout procedures are authorized for those contracts where the amounts of indirect expense to be reimbursed by a single Department of Energy contract will not exceed \$1,000,000 per contractor fiscal year. There will be no other limitation regarding use of quick close out procedures.

D. This deviation shall be in effect for a period of three years from the date of this class deviation.

  
\_\_\_\_\_  
Procurement Executive  
Department of Energy

  
\_\_\_\_\_  
Date

FINDINGS AND DETERMINATION  
CLASS DEVIATION TO  
DEPARTMENT OF ENERGY ACQUISITION REGULATION

I. Findings

A. Department of Energy Acquisition Regulation 942.708 Quick closeout procedures, contains the following requirement at paragraph (a).

"Contracting officers shall use the quick-closeout procedure to finalize indirect expenses under any DOE contract when it appears appropriate to establish such expenses by means other than the formal negotiation procedures of FAR Subpart 42.7 and use of this procedure is agreeable to the contractor. The quick-closeout procedure is considered to include the establishment of either indirect cost rates established for the closeout of a contract(s) or lump-sum indirect expense dollars that shall be agreed to as chargeable to the contract. Such lump-sum amounts are appropriate for all categories of contractors - commercial, State / local governments, educational, and nonprofit organizations.

The contracting officer shall apply the quick-closeout procedure in closing DOE contracts in lieu of using the rates established in accordance with FAR 42.705 when:

- (1) See FAR 42.708(a)(1)
- (2) The amounts of the indirect expenses to be reimbursed by a single DOE contract will not exceed \$250,000 per contractor fiscal year or the indirect expense amount reimbursed by all DOE contracts using the quick-closeout procedure will not exceed \$1,000,000 per contractor fiscal year."

B. There is no statutory basis for this requirement, nor for the dollar threshold.

C. The Department of Energy, as of June 30, 1994, has over 5,000 inactive contracts. Of these, over 3,300 have been inactive for more than six months. As the vast majority of these contracts are cost reimbursement in nature, using standard closeout procedures requires a final closeout indirect expense audit. The cognizant Federal agency responsible for conducting most of these final audits is the Defense Contract Audit Agency of the Department of Defense. That organization historically has placed final indirect expense audits at a low priority, and thus the lead time for such audits is as much as five years. Until these audits are complete, the contracts cannot be closed out, unless

quick closeout procedures are used. The Department of Energy's budgetary restrictions also inhibit securing final indirect expense audits from the Department of Defense.

D. The purpose of the threshold in 48 CFR 942.708(a)(2) is to restrict contracting officers in making considered decisions concerning close out of contracts. In the original publication of the Federal Acquisition Regulation, effective April 1, 1984, there was no threshold for authorizing quick closeout procedures; the use of quick closeout procedures was authorized if... "the amount of unsettled indirect cost to be allocated to the contract is relatively insignificant;". To continue the threshold at the present amount impedes the orderly closeout of contracts, imposes inordinate delays in closing out contracts, and thus inhibits contracting officers from settling contracts and possibly recovering moneys due the Government.

## II. Determination

A. The significant backlog of close out actions, the extensive costs involved in securing indirect expense audits, and the long periods of time required for the cognizant Federal agencies to conduct such audits, thus restricting the Department's ability to recover obligations which have not been spent by the contractor, necessitate that actions should be taken to close out contracts more efficiently. On a Federal basis, in order to facilitate the close out of contracts, and deal with Government wide backlogs, the Federal Acquisition Regulation 42.708, Quick close out procedures, is being studied for possible amendment of the dollar threshold for use of the quick close out procedures.

Rather than wait for a possible amendment to the Federal Acquisition Regulation, the Department of Energy will carry out a three year pilot program in order to test greater use of the quick close out procedures as a way of reducing the cost and time involved in closing out completed contracts. During the course of this three year period, the threshold for use of quick close out procedures will be raised to \$1 million of indirect expenses to be reimbursed by a single Department of Energy contract; there will be no other limitation on the use of these procedures.

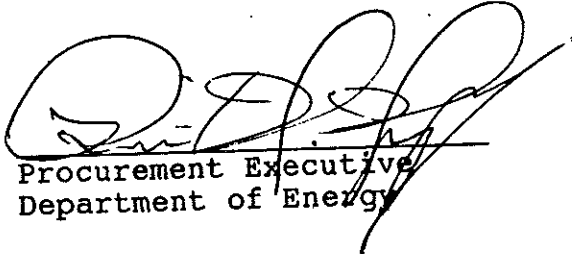
At the conclusion of this three year pilot period, the Department will assess any savings of time and money in the close out process as compared to the risk taken in closing out contracts without final indirect expense audits.



B. Therefore, in accordance with the authority vested in me by 48 CFR 901.404, Class deviations, I hereby grant a deviation, on a class basis, to 48 CFR 942.708, Quick closeout procedures, which restricts the use of quick closeout procedures to those contracts where indirect expenses to be reimbursed by the Department of Energy under a single contract will not exceed \$250,000 per contractor fiscal year, or where the indirect expense amount reimbursed by all Department of Energy contracts will not exceed \$1,000,000.

C. In lieu of this requirement from which the deviation is granted, quick closeout procedures are authorized for those contracts where the amounts of indirect expense to be reimbursed by a single Department of Energy contract will not exceed \$1,000,000 per contractor fiscal year. There will be no other limitation regarding use of quick close out procedures.

D. This deviation shall be in effect for a period of three years from the date of this class deviation.



Procurement Executive  
Department of Energy

9-3-94  
Date