

# PART 942 - CONTRACT ADMINISTRATION AND AUDIT SERVICES

Authority: 42 U.S.C. 7101 and 50 U.S.C. 2401

Source: 49 FR 12026, Mar. 28, 1984, unless otherwise noted.

## Subpart 942.2 - Contract Administration Services

Source: 65 FR 81007, Dec. 22, 2000, unless otherwise noted.

### 942.270-1 Contracting Officer's Representatives.

In accordance with internal agency procedures, a contracting officer may designate qualified personnel to serve as the Contracting Officer's Representative (COR) to perform certain technical functions in contract administration. These functions include, but are not limited to, technical monitoring, inspections, approval of shop drawings, testing, and approval of samples. The COR serves only as the contracting officer's technical representative and is not authorized to change the scope, price, terms, or conditions of the contract. The contracting officer must make COR designations in writing and identify the COR's responsibilities and limitations. The contracting officer must also provide a copy of the COR designation to the contractor and the contract administration office.

### 942.270-2 Contract clause.

The contracting officer may insert the clause at 952.242-70, Technical Direction, or a substantially similar clause, in solicitations and contracts when a designated Contracting Officer's Representative will issue technical direction to the contractor.

## Subpart 942.7 - Indirect Cost Rates

### 942.704 Billing rates.

(b) If the contracting officer or auditor responsible for establishing billing rates under FARFAR 42.504 has not established current rates for the contract performance periods (contractor fiscal year), the DOE contracting officer administering the contract must establish appropriate billing rates. If the contractor has more than one DOE contract covering that performance period, the DOE office with the largest unliquidated obligations at the start of the period must take the lead in establishing the billing rates for all DOE contracts. Once the designated contracting officer

under FAR 42.704 establishes the appropriate billing rates, all DOE contracting officers must adopt those rates and retroactively revise all billings and payments accordingly.

## 942.705 Final indirect cost rates.

### 942.705-1 Contracting officer determination procedure.

(b)

(1) Under FAR52.216-7, Allowable Cost and Payment, contractors must submit their final indirect cost rate proposals, reflecting actual costs for the covered period, to the cognizant contracting officer responsible for negotiating their final rates. The DOE negotiating official must request all required audit services in accordance with internal procedures.

## Subpart 942.6 - Disallowance of Costs

### 942.603 Disallowing costs after incurrence.

(a) Contracting officer receipt of vouchers. Contractors must submit vouchers and invoices to the contracting officer or designee for review and approval. If the review raises questions about cost allowability, the contracting officer must:

(1) Hold informal discussions with the contractor, as appropriate.

(2) Issue a written notice (letter, memo, etc.) to the contractor identifying costs that are disallowed or will be disallowed and informing the contractor that it may:

(i) Submit a written claim explaining why the cost should be reimbursed, if it disagrees with the disallowance.

(ii) File a claim under the disputes clause, which will be processed under applicable disputes procedures if disagreements cannot be resolved.

(3) Process the voucher or invoice for payment and instruct the finance office to deduct the disallowed cost when scheduling payment.

(c) Auditor reports and other sources of questioned costs.

(1) Professional auditors may issue reports questioning the allowability of incurred costs. These reports may result from audits conducted under OMB Circular A-73, other independent audit authorities, or independent requests for audit services.

(2) When auditor reports or other notifications question costs or identify them as unallowable, the contracting officer must follow up and resolve the issues promptly. The contracting officer must determine the appropriate action, through discussions with the contractor and/or auditor, within six months of the audit report date (or the date of receipt for non-Federal audits). The contracting officer will pursue one of the following actions:

- (i) Accept and implement the audit recommendations.
- (ii) Accept the audit recommendation's principle but reject the questioned cost amount.
- (iii) Reject the audit findings and recommendations.
- (3) When implementing the chosen course of action, the contracting officer will:
  - (i) Hold discussions with the auditor and contractor, as appropriate.
  - (ii) Issue written notice to the contractor of the government's intent to disallow questioned costs, if the contracting officer agrees with the auditor.
  - (iii) Negotiate a mutual settlement of questioned costs if the contracting officer agrees with the auditor in principle but disagrees on the amount.
  - (iv) Negotiate a mutual settlement if the contracting officer accepts the auditor's recommendation but the contractor disagrees.
  - (v) Issue a final decision disallowing the cost if the parties cannot resolve differences, informing the contractor of its right to appeal and providing appeal procedures.
  - (vi) Take immediate steps to recoup all disallowed costs owed to the government by:
    - (A) Requesting a credit adjustment (offset) on the next or future invoice(s) under the affected contract.
    - (B) Deducting the disallowed cost from the next or future invoice(s) if the contractor does not provide an adjustment and such deduction is appropriate.
    - (C) Directing the contractor to issue a refund to the government if there are insufficient government payments remaining for an offset or if an offset is otherwise inappropriate.
  - (vii) Promptly notify the appropriate finance office of any refunds due to ensure proper billing and follow-up collection.

## Subpart 942.71 - Conditional Payment of Fee, Profit, and Other Incentives

Source: 89 FR 89759, Nov. 13, 2024, unless otherwise noted.

### 942.7100 Conditional payment of fee, profit, and other incentives.

- (a) If the contractor fails to meet contract requirements related to environment, safety, and health (ES&H) (see subpart 923.70), or requirements for security or safeguarding Restricted Data or other classified information (see subpart 904.4), the Contracting Officer may unilaterally reduce otherwise earned fee, fixed fee, profit, or other incentives under the clause at 952.242-71, Conditional Payment of Fee, Profit, and Other Incentives.

(b) When evaluating performance failures that may result in a reduction of earned fee, the Contracting Officer must consider mitigating factors listed in the clause. The Contracting Officer must also obtain concurrence from the Head of the Contracting Activity:

(1) Before reducing any fee, profit, or other incentives under the clause at 952.242-71; and

(2) Before determining that no reduction is warranted for performance failures that would otherwise justify one.

(c) Before pursuing a fee reduction related to a violation of worker safety and health regulations by the contractor or its employees, the Contracting Officer must coordinate with the Office of Enforcement within the Office of Enterprise Assessments (or its successor).

(d) Unless prescribing the management and operating contract clause (see 970.1504-3(b)), insert the clause at 952.242-71, Conditional Payment of Fee, Profit, and Other Incentives (Deviation June 2026), in all contracts containing the clause at 952.204-2, Security Requirements, the clause at 952.250-70, Nuclear Hazards Indemnity Agreement, or both.

# PART 952—SOLICITATION PROVISIONS AND CONTRACT CLAUSES

## 952.242-70 Technical direction.

As prescribed in 942.270-2, insert the following clause:

Technical Direction (DEVIATION JUNE 2026)

(a) Performance of the work under this contract will be subject to the technical direction of the DOE Contracting Officer's Representative (COR). The term “technical direction” is defined to include, without limitation:

(1) Providing direction to the Contractor that redirects contract effort, shift work emphasis between work areas or tasks, require pursuit of certain lines of inquiry, fill in details, or otherwise serve to accomplish the contractual Statement of Work.

(2) Providing written information to the Contractor that assists in interpreting drawings, specifications, or technical portions of the work description.

(3) Reviewing and, where required by the contract, approving, technical reports, drawings, specifications, and technical information to be delivered by the Contractor to the Government.

(b) The Contractor will receive a copy of the written COR designation from the Contracting Officer. It will specify the extent of the COR's authority to act on behalf of the Contracting Officer.

(c) Technical direction must be within the scope of work stated in the contract. The COR does not have the authority to, and may not, issue any technical direction that—

(1) Constitutes an assignment of additional work outside the Statement of Work;

(2) Constitutes a change as defined in the contract clause entitled “Changes;”

(3) In any manner causes an increase or decrease in the total estimated contract cost, the fee (if any), or the time required for contract performance;

(4) Changes any of the expressed terms, conditions or specifications of the contract; or

(5) Interferes with the Contractor's right to perform the terms and conditions of the contract.

(d) All technical direction will be issued in writing by the COR.

(e) The Contractor must proceed promptly with the performance of technical direction duly issued by the COR in the manner prescribed by this clause and within its authority under the provisions of this clause. If, in the opinion of the Contractor, any instruction or direction by the COR falls within one of the categories defined in (c)

(1) through (c)(5) of this clause, the Contractor must not proceed and must notify the Contracting Officer in writing within five (5) working days after receipt of any such instruction or direction and must request the Contracting Officer to modify the contract accordingly. Upon receiving the notification from the Contractor, the Contracting Officer must—

(1) Advise the Contractor in writing within thirty (30) days after receipt of the Contractor's letter that the technical direction is within the scope of the contract effort and does not constitute a change under the Changes clause of the contract;

(2) Advise the Contractor in writing within a reasonable time that the Government will issue a written change order; or

(3) Advise the Contractor in writing within a reasonable time not to proceed with the instruction or direction of the COR.

(f) A failure of the Contractor and Contracting Officer either to agree that the technical direction is within the scope of the contract or to agree upon the contract action to be taken with respect to the technical direction will be subject to the provisions of the clause entitled “Disputes.”

(End of clause)

## 952.242-71 Conditional payment of fee, profit, and other incentives.

As prescribed at 923.7003(f) and 942.7100(d), insert the following clause: (Note: If the clause at 952.204-2, Security Requirements, is not included in the contract, the security or safeguarding of Restricted Data and other classified information requirements of the clause do not apply; if the clause at 952.250-70, Nuclear Hazards Indemnity Agreement, is not included in this contract, the environment, safety and health requirements of the clause do not apply.)

### Conditional Payment of Fee, Profit, and Other Incentives [DEVIATION JUNE 2026]

#### (a) *Definitions.*

(1) *Amount of payment for otherwise earned fee, fixed fee, profit, or other incentives for a period* means the quantity the Contracting Officer or fee determining official determines the Contractor is due for its performance prior to a separate determination that the Contractor did not comply with a term or condition of the contract or experienced a failure relating to: environment, safety, and health or security or safeguarding of Restricted Data and other classified information.

(j) If the contract includes incentives allocable to more than one period, the amount of payment for otherwise earned fee, fixed fee, profit, or other incentives for a period includes the allocable amount of payment for each such incentive for otherwise earned fee, fixed fee, profit, or other incentives. Unless stated otherwise, the allocable amount is the total amount divided by the number of periods the incentive covered.

(2) *Amount actually payable to the Contractor for a period* means: (the amount of payment for otherwise earned fee, fixed fee, profit, or other incentives for the period) less (the amount of any reduction under this clause and the amount of any reductions under other clauses to the amount of payment for otherwise earned fee, fixed fee, profit, or other incentives for the period).

(b) *General.*

(1) (*Note:* If the clause at 952.204-2, Security Requirements, is not included in this contract, the security or safeguarding of Restricted Data and other classified information requirements of this clause do not apply; if the clause at 952.250-70, Nuclear Hazards Indemnity Agreement, is not included in this contract, the environment, safety and health requirements of this clause do not apply.)

The amount of payment of otherwise earned fee, fixed fee, profit, or other incentives for any period under this contract is dependent upon the Contractor's and the Contractor's employees' compliance during the period with the performance requirements of this contract relating to:

- (i) environment, safety and health (ES&H), which includes worker safety and health (WS&H); and
- (ii) security or safeguarding of Restricted Data and other classified information.

(2) The ES&H performance requirements of this contract are set forth in its ES&H terms and conditions, including in some cases a DOE approved contractor (Integrated Safety Management System (ISMS) or similar document. Financial incentives for timely mission accomplishment or cost effectiveness will never compromise or impede full and effective implementation of the ISMS and full ES&H compliance.

(3) The security or safeguarding of Restricted Data and other classified information performance requirements of this contract are set forth in the clause of this contract entitled, "Security requirements," the clause (if it is included) of this contract entitled "Laws, Regulations, and DOE Directives," and in other terms and conditions.

(4) If the Contractor does not, in any period, meet the performance requirements of this contract relating to ES&H or security or the safeguarding of Restricted Data and other classified information, the Contracting Officer may, per this clause, reduce the amount of payment of otherwise earned fee, fixed fee, profit or other incentives.

(c) *Amount of Reduction.*

(1) If in any period (see paragraph (c)(5) of this clause) the Contractor does not meet the performance requirements of this contract relating to ES&H or security or the safeguarding of Restricted Data and other classified information, the Contracting Officer will unilaterally determine the amount of reduction to the amount of payment for otherwise earned fee, fixed fee, profit, or other incentives for the period based on the severity of the performance failure pursuant to the degrees of failure specified in paragraphs (e) and (f) of this clause. The percent reduction for each performance failure will be: not less than 26% nor more than 100% for a first degree failure; not less than 11% nor more than 26% for a second degree failure; and no more than 11% for a third degree failure.

(2) For a reduction allocable to more than one period, the Government will make the allocation at the end of the period in which it determines the total amount of the reduction. Unless stated otherwise, the allocable amount is the total reduction amount divided by the number of periods the reduction covered.

(3) The Government will reduce the payment of otherwise earned fee, fixed fee, profit, or other incentives as soon as practicable after the end of the period in which the performance failure occurs. If the Government is not aware of the failure when it occurs, it will make the reduction as soon as practical after becoming aware.

(4) In determining the reduction to the amount of payment and the applicability of mitigating factors, the Contracting Officer will consider the Contractor's overall performance in meeting the ES&H or security or safeguarding of Restricted Data and other classified information performance requirements of the contract. Such consideration will include performance against any specific performance criteria/requirements that provide additional definition, guidance for the amount of reduction, or guidance for the applicability of mitigating factors. In all cases, the Contracting Officer will consider mitigating factors that may warrant a reduction below the reduction that would be appropriate absent mitigating factors. Mitigating factors include, but are not limited to, the following (paragraphs (c)(4)(v), (vi), (vii) and (viii) of this clause apply to ES&H only).

(i) Degree of control the Contractor had over the event or incident.

(ii) Efforts the Contractor had made to anticipate and mitigate the possibility of the event in advance.

(iii) Contractor's self-identification and response to the event to mitigate impacts and recurrence.

(iv) General status (trend and absolute performance) of: ES&H and compliance in related areas and safeguarding Restricted Data and other classified information and compliance in related areas.

(v) Contractor's demonstration to the Contracting Officer's satisfaction that the principles of industrial ES&H standards are routinely practiced.

(vi) Event caused by "Good Samaritan" act by the Contractor (*e.g.*, offsite emergency response).

(vii) Contractor's demonstration that a performance measurement system is routinely used to improve and maintain ES&H performance (including effective resource allocation) and to support DOE corporate decision-making (e.g., policy, ES&H programs).

(viii) Contractor's demonstration that an Operating Experience and Feedback Program is functioning that demonstrably affects continuous improvement in ES&H by use of lessons-learned and best practices inter- and intra-DOE sites.

(5) The Contracting Officer will, for purposes of this clause, at the time of contract award or as soon as possible after contract award, allocate the total amount of fee, profit, and other incentives that is available under the contract to equal periods of [insert 6 or 12] months to run sequentially for the term of the contract, including options. The amount to be allocated to each period will equal: (the average monthly amount available during the term of the contract) multiplied by (the number of months for each period).

(d) Reductions to the amount of payments the Contractor has received for earned fee, fixed fee, profit, or other incentives under this and other clauses.

(1) The amount of the reduction under this clause, in combination with the amount of any reduction under any other clause, will not exceed the amount of payment for otherwise earned fee, fixed fee, profit, or other incentives for the period.

(2) If at any time during the contract any reductions under this clause or other clauses result in the sum of the amount of payments the Contractor has received for earned fee, fixed fee, profit, or other incentives to exceed the sum of the amounts of actually payable to the Contractor, the Contractor will immediately return the excess to the Government.

(3) At the end of the contract -

(i) The Government will pay the Contractor the amount by which the sum of amounts actually payable to the Contractor exceeds the sum of the payments the Contractor has received; or

(ii) The Contractor will return to the Government the amount by which the sum of the payments the Contractor has received exceeds the sum of the amounts actually payable to the Contractor.

(e) *Environment, Safety and Health (ES&H)*. Performance failures occur if the Contractor does not comply with the contract's ES&H terms and conditions, including applicable ES&H laws, regulations, DOE directives, and DOE approved Contractor ISMS. The degrees of performance failure under which reductions of earned or fixed fee, profit, or other incentives will be determined are:

(1) First Degree: Performance failures that are most adverse to ES&H. They include:

(i) Failure to develop and obtain required DOE approval of an ISMS, if an ISMS is required.

(The Government will perform necessary reviews in a timely manner and not unreasonably withhold approval.)

(ii) Performance failures determined, per applicable ES&H laws, regulations, or DOE

directives to have resulted in, or that could reasonably be expected to result in, serious injury or death to a worker.

(iii) Occurrence of any accident or event that meets the criteria of Appendix A of DOE Order 225.1B (or successor Order) and results in a determination to conduct a Federal Accident Investigation Board.

(2) Second Degree: Performance failures that are significantly adverse to ES&H. They include:

(i) Failures to comply with an approved ISMS, if an ISMS is required.

(ii) Failures that have been determined, per applicable ES&H laws, regulations, or DOE directives, to have resulted in, or could reasonably be expected to result in, an actual injury, exposure, or exceedance that occurred or nearly occurred but had minor practical long-term health consequences.

(iii) A breakdown of the Integrated Safety Management System.

(iv) Non-compliance with applicable ES&H laws, regulations, or DOE directives actually resulting in an accident that meets the criteria of Appendix A of DOE Order 225.1B (or successor Order) but not resulting in a determination to conduct a Federal Accident Investigation Board.

(v) Non-compliance with applicable ES&H laws, regulations, or DOE directives that results in a near miss of an accident or event that could have resulted in an adverse effect and a determination to conduct a Federal Accident Investigation Board. (A near miss is a situation in which an inappropriate action occurs, or a necessary action is omitted, that does not result in an adverse effect.)

(3) Third Degree: Performance failures that have been determined per applicable ES&H laws, regulations, or DOE directives to reflect a lack of focus on improving ES&H. They include:

(i) Non-compliance with applicable ES&H laws, regulations, or DOE directives actually resulting in potential breakdown of the Integrated Safety Management System. The following performance failures or performance failures of similar import will be considered third degree:

(A) Failure to implement effective corrective actions to address deficiencies/non-compliances documented through external (*e.g.*, Federal) oversight and/or reported per DOE Order 231.B (or successor Order) requirements; internal oversight of 10 CFR parts 830, 835, 850, and 851; or DOE Orders 227.1A and 436.1 (or successor Order) requirements.

(B) Multiple similar non-compliances identified by external (*e.g.*, Federal) oversight that in aggregate indicate a significant programmatic breakdown.

(C) Non-compliances that: have, or that may have, significant negative impacts to the worker, the public, or the environment; or indicate a significant programmatic breakdown.

(D) Failure to notify DOE upon discovery of events or conditions where notification is required by the terms and conditions of the contract.

(f) *Security or Safeguarding Restricted Data and Other Classified Information.* Performance failures occur if the Contractor does not comply with the terms and conditions of this contract relating to the safeguarding of Restricted Data and other classified information. The degrees of performance failure under which reductions of fee, profit, or other incentives occur will be determined as follows:

(1) First Degree: Performance failures that have been determined, in accordance with applicable law, DOE regulation, or directive, to have resulted in, or that can reasonably be expected to result in, exceptionally grave damage to the national security. The following are examples of performance failures or performance failures of similar import that will be considered first degree:

(i) Non-compliance with applicable laws, regulations, and DOE directives actually resulting in, or creating a risk of, loss, compromise, or unauthorized disclosure of Top Secret Restricted Data or other information classified as Top Secret, any classification level of information in a Special Access Program (SAP), information identified as sensitive compartmented information (SCI), or high risk nuclear weapons-related data.

(ii) Contractor actions that result in a breakdown of the safeguards and security management system that can reasonably be expected to result in the loss, compromise, or unauthorized disclosure of Top Secret Restricted Data or other information classified as Top Secret, any classification level of information in an SAP, information identified as SCI, or high risk nuclear weapons-related data.

(iii) Failure to promptly report the loss, compromise, or unauthorized disclosure of Top Secret Restricted Data or other information classified as Top Secret, any classification level of information in an SAP, information identified as SCI, or high risk nuclear weapons-related data.

(iv) Failure to timely implement corrective actions stemming from the loss, compromise, or unauthorized disclosure of Top Secret Restricted Data or other information classified as Top Secret, any classification level of information in a SAP, information identified as SCI, or high risk nuclear weapons-related data.

(2) Second Degree: Performance failures that have been determined, in accordance with applicable law, DOE regulation, or directive, to have actually resulted in, or that can reasonably be expected to result in, serious damage to the national security. The following are examples of performance failures or performance failures of similar import that will be considered second degree:

(i) Non-compliance with applicable laws, regulations, and DOE directives actually resulting in, or creating risk of, loss, compromise, or unauthorized disclosure of Secret Restricted Data or other information classified as Secret.

(ii) Contractor actions that result in a breakdown of the safeguards and security management system that can reasonably be expected to result in the loss, compromise, or unauthorized disclosure of Secret Restricted Data, or other information classified as Secret.

(iii) Failure to promptly report the loss, compromise, or unauthorized disclosure of Secret Restricted Data or other classified information regardless of classification (except for information covered by paragraph (f)(1)(iii) of this clause).

(iv) Failure to timely implement corrective actions stemming from the loss, compromise, or unauthorized disclosure of Secret Restricted Data or other classified information classified as Secret.

(3) Third Degree: Performance failures that have been determined, in accordance with applicable law, regulation, or DOE directive, to have actually resulted in, or that can reasonably be expected to result in, undue risk to the common defense and security. This category includes performance failures that result from a lack of Contractor management and/or employee attention to the proper safeguarding of Restricted Data and other classified information. These performance failures may be indicators of future, more severe performance failures and/or conditions that if identified and corrected early would prevent serious incidents. The following are examples of performance failures or performance failures of similar import that will be considered third degree:

(i) Non-compliance with applicable laws, regulations, and DOE directives actually resulting in, or creating risk of, loss, compromise, or unauthorized disclosure of Restricted Data or other information classified as Confidential.

(ii) Failure to promptly report alleged or suspected violations of laws, regulations, or directives pertaining to the safeguarding of Restricted Data or other classified information.

(iii) Failure to identify or timely execute corrective actions to mitigate or eliminate identified vulnerabilities and reduce residual risk relating to the protection of Restricted Data or other classified information in accordance with the Contractor's Safeguards and Security Plan or other security plan, as applicable.

(iv) Contractor actions that result in performance failures that unto themselves pose minor risk, but when viewed in the aggregate indicate degradation in the integrity of the Contractor's safeguards and security management system relating to the protection of Restricted Data and other classified information.

(End of clause)