



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

OCTOBER 30, 2003

DPAP/P

MEMORANDUM FOR DEPUTY DIRECTOR, DEFENSE MANAGEMENT CONTRACT AGENCY, DCMA

SUBJECT: Senior Executive Council (SEC) Endorsement of DoD Professional Services
Council IPT Recommendations

In your July 18, 2003, memorandum, you requested coordination on a draft memorandum under the joint signatures of AT&L and the Comptroller. That draft memorandum provides a number of recommendations, and an action plan for implementing those recommendations.

I am concerned that the draft memorandum will impose a number of actions on the Military Departments and Defense Agencies before they have a full opportunity to comment. In addition, I am concerned that the proposed actions have not been adequately distributed to the general public for comment.

I also have the following concerns regarding the specific recommendations and actions plans in the draft memorandum:

1. The draft memorandum provides for joint responsibility between DCMA, DFAS, and industry to identify solicitations that contain non-compliant line item structure. While I support including industry in the process, I believe it is imperative that all of industry have the opportunity to participate. I therefore recommend that DCMA and DFAS develop a Website that will enable industry to notify DCMA and DFAS of contracts that contain non-compliant line item structures.
2. The draft memorandum requires DCMA and DFAS to issue a Notice of Contract Deficiency Report for new contracts that do not meet the criteria in DFARS 204.7104. I agree that this is an excellent process for tracking compliance and for assuring that significant deficiencies are brought to the attention of the buying command. I also agree that the buying command should correct the deficiency as soon as possible. However, I do not agree with the requirement that payments may not be authorized until the discrepancy is corrected by a contract modification. By precluding payment, this recommendation results in delaying payments to contractors. I believe this is an inappropriate remedy for an internal



Government discrepancy. These discrepancies are not the fault of the contractor; the contractor should not be delayed payments due to such discrepancies. In addition, this policy may have a significant cost to the Department, since it will require the payment of interest costs on the delayed payments.

3. The draft memorandum recommends considering a fixed indirect rate or material handling charge to be applied to reimbursable line items for Time and Material contracts. This recommendation should be deleted because using such a fixed rate would represent cost plus percentage of cost contracting, which is not a legal method of contracting.
4. The draft memorandum also recommends providing specific payment instructions in the contract. The memorandum further recommends that the instructions be prohibited from stating "Pay oldest funds first". This recommendation should be deleted. As part of the current DFARS transformation case, the DAR Council is currently processing a DFARS revision entitled "Payment Instructions". This DFARS revision will require that the contract include specific payment instructions whenever there are multiple appropriations or cost-reimbursable line items. It also will provide the Contracting Officer with twelve payment options from which to choose. The Contracting Officer is required to select the option that best reflects actual work performance. One of these options includes payment based on "oldest funds first", which in some cases will best reflect actual work performance.

My specific recommended revisions to the memorandum to address each of my concerns are included in the attached line-idline-out version of the draft **memorandum**. If you have any questions regarding this memorandum, my point of contact is Mr. David J. Capitano, at 703-847-7486 or at david.capitano@osd.mil.



for Deidre A. Lee
Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Contract Structure, Payment and Closeout

In May 2002, DoD and Industry established an Integrated Process Team (IPT) to identify post-award contract issues and recommend solutions. The IPT focused on improving the timeliness and accuracy of contract payments. This was identified as the primary area of concern since it drives canceling funds, interest paid to contractors, and contract closeout timeframes.

The IPT has provided recommendations in the following areas:

- Enforce One Contract Line Item – One Appropriation Relationship
- Implement a Front-End Edit Function to Validate Lines of Accounting
- Use 3 Contract Checklist to Highlight Key Attributes
- Coordinate with DFAS and DCMA during the Acquisition Planning Phase
- Provide Mandatory Publication of all Contractual Documents on EDA

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On March 20, 2003, representatives of the IPT briefed the Senior Executive Council (SEC) on the specific issues and recommended solutions. The SEC adopted the IPT's recommendations, and requested a detailed implementation plan. The proposed detailed implementation plan for each of the recommendations is in the attachment to this letter.

Within 60 days, DCMA and DFAS will organize a meeting with the Military Departments/Defense Agencies to discuss the proposed implementation plan, and answer any questions you may have. We seek your support in this important initiative by sending high-level representatives to this meeting. Based on the input obtained at this meeting, a final implementation plan will be developed and distributed for action.

The point of contact for the USD(AT&L) is Mr. Robert Schmitt, Executive Director, Contract Management Operations, DCMA at 703-428-1143 and the point of contact for the USD(C) is Ms. Sally Smith, Director, Commercial Pay Business Line, DFAS at 614-693-6600.

Dov S. Zakheim
Under Secretary of Defense
(Comptroller)

Michael Wynne
Acting Under Secretary of Defense
(Acquisition, Technology, and Logistics)

Attachment:
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<#>Enforce One Contract Line Item - One Appropriation Relationship¶
#>Implement a Front-End Edit Function to Validate Lines of Accounting¶
<#>Use a Contract Checklist to Highlight Key Attributes¶
<#>Coordinate with DFAS and DCMA during the Acquisition Planning Phase¶
<#>Provide Mandatory Publication of all Contractual Documents on EDA¶
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Enforce One Contract Line Item – One Appropriation Relationship

Unsupported use of multiple accounting classification reference numbers (ACRNs) for one contract line item number (CLIN) unnecessarily complicates post-award contract management, payment and closeout processes and may result in erroneous payments when payment instructions are missing or ambiguous, increase prompt payment interest penalties, and increase administrative costs to reconcile contracts.

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DFARS 204.7103-1(a)(4) requires a single accounting classification citation for each contract line item except in the situations authorized below:

- For a single, non-severable deliverable to be paid for with R&D or other funds properly incrementally obligated over several fiscal years in accordance with DoD policy.
- A single, non-severable deliverable to be paid for **with** different authorizations or appropriations, such as in the acquisition of a satellite or the modification of production tooling used to produce items being acquired by several activities; and
- A modification to an existing contract line item for a non-severable deliverable that results in the delivery of a modified item where the item and modification are to be paid for with different accounting classification citations.

When the use of multiple accounting classification citations is authorized for a single contract line item, DFARS 204.7104-1(a) requires an informational subline item for each accounting classification citation

Although the DFARS identifies those circumstances when it is appropriate to include multiple accounting classification citations on one contract line item, many organizations improperly extend the use of the multiple ACRNS to one CLIN for line items that do not meet the exception criteria. This one CLIN, multiple ACRN relationship shall be discontinued unless the exception is in accordance with DFARS.

Process:

To ensure compliance, the following plan will be implemented within the Department of Defense:

1. DFAS and DCMA will issue a joint letter to each of the Services/Defense Agencies providing a baseline listing of contracts awarded in Fiscal Year 2001 and Fiscal Year 2002 that may not comply with the DFARS 204.7103-1(a)(4). The listing will then be provided quarterly for all new contracts beginning in 4th Quarter of Fiscal Year 2003. All contracts awarded after October 1, 2003 shall be in compliance with DFARS. Contracts awarded prior to FY04 may be exempt

from compliance, with contracts awarded in FY 03 being adjusted for compliance if practical.

2. USD(AT&L) and USD(C) will develop training to ensure understanding of the DFARS requirements.
3. ~~Beginning immediately~~, when involved in the pre-award phase or provided access to solicitations, DCMA and DFAS will identify all solicitations containing non-compliant line item structure and request correction prior to award. In addition, DCMA and DFAS will develop a Website (hat will enable industry to identify contracts that contain non-compliant line item structures.
4. For new contracts awarded after October 1, 2003. DCMA and DFAS will issue an advisory notice to buying commands notifying them when a contract line item structure does not comply with DFARS 204.7104. Notification will advise that contracts received by them after January 1, 2004 will require correction and the payment may be delayed pending correction.
5. Effective January 1, 2004, DCMA and/or DFAS will issue a Notice of Contract Deficiency Report (DD Form 1716 or similar document) to buying commands for new contracts containing multiple ACRNs for one CLIN that do not meet the criteria in DFARS 204.7104; DD Form 1716s will request correction and cite the DFARS reference,
6. DFAS will monitor improvement by reviewing metncs for multiple ACRNs per CLIN.

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Metrics:

DFAS will provide baseline data for Fiscal Year 2001 and 2002, by component, for contracts with multiple ACRNs per CLIN not in compliance with DFARS 204.71.

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DFAS will monitor the number of contracts and number of CLINs containing multiple ACRNs per CLIN and compare with the baseline to measure progress and:

- On a monthly basis, track and report to each military department and defense agency, the number of Contract Deficiency Reports (DD Form 1716s) issued by DFAS and/or DCMA to buying commands requesting correction to multiple ACRNs per CLIN;
- Report the number of DD Form 1716 corrections made; and
- On a quarterly basis, report to the Senior Executive Council on progress made.

Implement a Front-End Edit Function to Validate the Line of Accounting

It is a long term goal to standardize the line of accounting (LOA) and adopt a standard record layout format for all Departmental lines of accounting in contracts, other procurement documents, and other related systems. The goal is consistent with the Department's Financial Management Enterprise Architecture plan. Until this effort is accomplished, up-front system validation of the line of accounting by the Military Services and Defense Agencies will ensure that the line of accounting (LOA) is accurate prior to contract distribution.

Process:

Consistent with the Department's goals, each Military Service and Defense Agency shall:

- Within 60 days of this memo, the Military Services/Defense Agencies shall submit a plan for creation of a validation mechanism;
- Within **180 days** of this memo, have mechanisms **in** place for validation of the line of accounting data element within the existing contract writing systems.
- Services/Defense Agencies will report to USD(AT&L) and USD(C) at the 60 day and 180 day milestone.

Metrics:

DFAS will report quarterly to USD(AT&L) and USD(C) on quantity and percentage of errors occurring within the LOA.

Use of a Contract Checklist

The Joint IPT identified specific examples of contract attributes that contribute to timely payment and contract closeout. During the contract planning and formation phase, addressing each of these attributes will better ensure that the contract is properly constructed and will facilitate proper contract administration, payment and closeout.

The attributes that directly affect payment *follow*:

Contract Payment Basics Top 10 Messages/Do's and Don'ts

1. Make payment instructions a conscious decision.
2. Discuss payment options with DFAS during acquisition planning. Multiple lines of accounting increase payment complexity.
3. Cite all payment related information in Section G of the contract. For commercial contracts, ensure payment instructions are provided with the schedule.
4. Limit funding to One ACRN/One CLIN or SLIN unless authorized by DFARS 204.7103-1(a)(4).
5. Minimize unique instructions. If they apply, make sure the contract distinguishes between billing and payment and that directions are consistent:
 - a. Billing instructions should tell the contractor what to include on invoices and vouchers and to whom they should be submitted;
 - b. Payment instructions should tell DFAS how to make the payment.
 - c. Instructions for billing and payment are consistent.
6. Recap funding changes on modifications that increase or decrease the contract. Include the line item number, ACRN, Accounting Classification, the basic contract amount, cumulative modification amount, modification amount of the current action (if any), and cumulative balance.
7. If necessary, modify payment instructions whenever accounting information or dollar amounts change.
8. Do not issue a delivery order against a "C" type contract. Task and delivery orders are "G", "D", or "F" documents and are authorized only under ordering agreements, IDIQs and "schedule" contracts.
9. Include a POC name, telephone number and email address in the "issued by" block on the SFs 26, 30, 33, and 1449 and DD 1155.

Deleted: <#>Consider a fixed indirect rate or material handling charge to be applied to reimbursable line items for Time and Material contracts, recommended rates may be available from DCAA or DCMA ¶

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Deleted: <#>Rely on MOCAS' Automated Payment of Invoices (API) whenever proportional disbursement will effect work progress. Provide specific payment instructions to pay ACRNs in sequence, when proportional payment is not desirable. Do not say "Pay oldest funds first". ¶

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Process:

DCAA and DCMA will:

Introduce the concept of a "pocket reference guide for payment issues" to the acquisition community through written notifications and discussion at conferences and **DAU** sponsored classes.

Develop a contract payment "pocket reference" guide for use by Government and Industry to be distributed by Dec **31**, 2003.

Explore the possibility of an OSD-wide managed initiative of the pocket reference guidance effort to include:

Distribution of the pocket guide in written format to the acquisition community. Identification of funding requirements and sources of funding necessary to implement the pocket guide as a mouse pad, paper weight, screen saver, or web-based training. This type of format is "user friendly" and readily accessible by acquisition professionals as they are generating their acquisition plans and written contractual documents.

Metrics:

Data will be extracted from the database of the Contract Deficiency Reports (DD Form 1716s) issued by DFAS and DCMA that request payment instructions, correction of a one CLIN – multiple ACRN relationship (not authorized by DFARS), and inconsistencies between payment and billing instructions. DFAS will measure the number/percentage of contracts issued requiring modification for the circumstances listed above.

A baseline will be established by DFAS and DCMA to measure numbers/percentages of contract deficiencies issued during Fiscal Year 03 for the reason codes identified above; a breakout will be provided to each of the Military and Service Components.

After October 1, 2003, these metrics will be reported quarterly to the SEC by DFAS and DCMA.

Coordination with DFAS and DCMA during the Acquisition Planning Phase

FAR Part 7, Acquisition Planning prescribes policies and procedures for performance of acquisition planning and the development of acquisition plans. The purpose of the planning is to ensure that the Government meets its needs in the most effective, economical, and timely manner. The plan (whether written or not) must address all the technical, business, management, and other significant considerations that will control the acquisition. In the past, most aspects of payment or contract closeout have not been considered during the planning phase. Yet, it is during this phase that basic decisions regarding contract structure, contract type, or unusual contracting terms are made and these very decisions guide the payment and closeout process.

To ensure that contracts are structured to facilitate the most effective and efficient administration and payment, DFAS and DCMA participation in the planning phase for certain contracts (applicable to awards to be delegated to DCMA and DFAS) shall be obtained when considered appropriate. Complexity of the contract terms and conditions should dictate coordination. DFAS and DCMA have identified specific examples of contract attributes where early coordination with the contract management community could enhance contract structure and facilitate timely payment. Examples include contracts with:

- Multiple funding sources.
- Multiple ordering offices.
- Non-severable line items with multiple ACRNs.
- ACAT I Programs
- Innovative payment instructions *and/or* contract structures; and
- Commercial and performance-based payments.

This up-front sharing of knowledge will ultimately result in reduced rework by the Services, DCMA, DFAS, and the contractor and reduce interest (funded by the Services) paid to contractors for late payment.

Process:

Within 60 days of this memo, DFAS and DCMA will each designate points of contact to serve as the focal point for the coordination effort by the Military Departments and other Defense Activities.

Within 180 days of this memo, each of the Military Departments and other Defense Agencies will develop and implement a process to ensure DFAS and DCMA participation in the planning stages, as early as practical for proposed contracts containing provisions that can lead to payment and contract closeout problems. The

specific details of the process and criteria will be determined by each of the Services/Defense components. This action will benefit the Services and Defense Agencies by facilitating timely payment during the contract generation phase by properly identifying issues at the front-end of the acquisition process.

Metrics:

DFAS maintains metrics on the number of Contract Deficiency Reports (DD Form 1716s), issued to the buying commands. Early coordination with DFAS and DCMA should identify potential problems prior to award and reduce the number of deficiency reports generated. DFAS will establish a baseline to measure numbers/percentages of contract deficiencies issued during Fiscal Year 2003 for the reason codes identified above and report that baseline to each of the Military Services and Defense components.

DFAS and DCMA will establish a metric to measure the number of coordination efforts prior to the award.

After October 1, 2003, on a quarterly basis, DFAS will monitor and report to the SEC on Contract Deficiency Reports generated by each Military Service or Defense Component.

After October 1, 2003, DFAS and DCMA will report quarterly to the SEC on the number of coordinated efforts.

Deleted: In light of the current DFARS transformation, the office of the Director, Defense Procurement and Acquisition Policy will issue policy that ensures that this process is institutionalized throughout DoD.

Mandatory Publication of All Contractual Documents on EDA

The DoD Memorandum regarding DoD Electronic Document Access (EDA) Business Rules was issued November 5, 2001. These business rules provided guidance and **established roles** and responsibilities for **participation in the EDA program**. **The business rules** state that participation is mandatory for all the Military Services and for specified DoD agencies.

Currently, the Defense Finance and Accounting Services (DFAS) receives 20% of all contractual documents in hard copy format. The majority of the documents are generated by the Military Services already covered by this DoD Memorandum. A renewed emphasis is necessary to encourage those offices not currently compliant to take the necessary actions to enable this capability. This mandate is primarily targeted at those sites not currently pursuing certification of their EDA distributions systems.

Process:

To reinforce the initiative to modernize the way that acquisition, financial and other documents are handled, all Departments and Agencies will take the necessary actions to publish all contractual documents to EDA using existing technology (electronic or manual scanning).

Each activity shall submit all contractual documents to DISA for publication to the EDA website. This may be accomplished via electronic submission for those contract writing systems already capable. For those activities that lack the electronic capability, a copy of the contractual documents shall be scanned into PDF format and submitted to DISA or other provisions can be made via coordination with the DISA EDA Program Manager. Submission from any source shall be in accordance with the requirements identified in section 2.6 of the EDA business rules.

Coordination with the **DISA EDA Program Manager** may be required to identify solutions to obstacles currently hampering the posting of contractual documents to EDA. A copy of the business rules and DISA points of contact can be found at http://www.defenselink.mil/acq/ebusiness/documents/EDA_rules.pdf

Metrics:

Utilizing the established Client Executive relationship, DFAS will identify those organizations still providing hard copy documents and will ensure discussion of the issue during periodic Client Executive meetings.

A baseline of numbers of documents and organizations still submitting hard copies will be established as of Sep 30,2003; quarterly metrics will be compared against this baseline to measure progress.

DFAS will track the number of hard copy contractual documents received and report to USD(AT&L) and USD(C) on a quarterly basis.