



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3015

ACQUISITION
AND SUSTAINMENT

MAR 08 2018

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Update to Contract Payment Instructions

On December 1, 2017, the Department's Procedures, Guidance, and Information (PGI) Section 204.7108 was changed to update the way payment instructions are carried in contracts. Prior to this change, contracting officers were required to provide specific payment instructions to determine how costs will be allocated for multi-funded contracts, cost contracts, and contracts with progress payments. This approach resulted in incorrect payment instructions often being entered on the contract award, negatively impacting payment processing. Payment instruction errors were the third most common cause of contract deficiency reports, even though payment instructions are required on only about 10% of awards.

The updated PGI provides a standard set of payment instructions (in table format) that define how payments should be made based on the payment request type and the supply or service being acquired. This table is posted on the Defense Procurement and Acquisition Policy's website at

https://www.acq.osd.mil/dpap/dars/pgi/pgi_hm/PGI204_71.htm#payment_instructions. Going forward, when payment instructions are required, the contracting officer shall insert either the entire table at PGI 204.7108(b)(2), or the above link to the table, in Section G of the contract (or its equivalent). The payment office shall allocate and record the amounts paid to the accounting classification citations in the contract using this table based on the type of payment request submitted (see Defense Federal Acquisition Regulation Supplement clause 252.232-7006) and the type of effort.

Providing this payment instructions table in the contract will reduce contract data issues and provide payment offices with additional guidance to allow them to select the appropriate payment procedures. However, if none of the payment instructions identified in the table are appropriate (i.e., multiple lot progress payments), the contracting officer may insert other payment instructions, provided the other payment instructions: (a) provide a significantly better reflection of how funds will be expended in support of contract performance; and (b) are agreed to by the payment office and the contract administration office. A copy of the agreement will be kept in the contract file (see PGI 204.7108(d)(12)).

Questions may be directed to my action officer for this effort, Mr. Bruce Propert, at david.b.propert2.civ@mail.mil or 703-697-4384.

Shay D. Assad
Director, Defense Pricing/Defense
Procurement and Acquisition Policy

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