



OFFICE OF THE SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1000

March 23, 2020

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Procure-to-Pay Standard Operating Procedure for Distribution of Contract Completion Statements ("Handshake 9")

As the Department strives to achieve auditability, key enterprise financial metrics indicate a significant number of unmatched transactions are still problematic, especially within the Contract Pay and Vendor Pay business area. The Procure-to-Pay Process Advocates Working Group, co-chaired by the Director, Contracting eBusiness and the Director, Business Process and Systems Modernization, has been determining root causes within the Department's end-to-end processes. Data exchanges, or "handshakes," must be standardized throughout the enterprise to ensure consistency and traceability of funds from the initial development of a Purchase Request through contract closeout.

This memorandum publishes the standard operating procedure (SOP) for electronic transmission of the contract closeout completion statement from procurement to financial systems, referred to as Handshake 9. The attached Handshake 9 SOP establishes the enterprise business rules and standard procedures for performing contract closeout, and is also available at https://www.acq.osd.mil/dpap/pdi/p2p/docs/Handshake_9_SOP_20200109.pdf. Unless waived, DoD components must implement Handshake 9 by October 1, 2021.

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Procure-to-Pay (P2P) Standard Operating Procedure (SOP) for Distribution of Contract Completion Statements ("Handshake" 9)

Version 1.0 as of January 9, 2020

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1 Purpose

This document establishes the enterprise business rules and standard procedures for procurement and financial activities (and their respective systems) to distribute a Contract Closeout Statement electronically. This data exchange, or handshake, is known as Handshake 9, “Perform Contract Closeout”, which entails closing completed or terminated contracts in the Department of Defense (DoD) acquisition and financial systems, and de-obligating remaining funds. Handshake 9 is an activity performed within the following Procure-to-Pay (P2P) process as defined by the Business Enterprise Architecture (BEA):

- Procurement Instrument Closure (P2P)

This data exchange will be conducted electronically using the Defense Logistics Management Standards (DLMS) 567C data standard as defined in the Defense Federal Acquisition Regulation Supplement (DFARS) Procedures, Guidance and Information (PGI) 204.804, the DoD Financial Management Regulation (FMR) Volume 3 Chapter 8, and the DLMS. The DLMS 567C, also known as the American National Standards Institute (ANSI) X12 Electronic Data Interchange (EDI) 567, is the electronic equivalent of the DD 1594. Unless waived, DoD Components must implement Handshake 9 by October 1, 2021.

Note that this document does not intend to address the steps leading up to Contract Closeout. Contract Closeout procedures prior to the distribution of the Contract Completion Statement that take place from physical completion to closeout are maintained outside of this SOP in the Contract Closeout Guidebook.

DoD Components should note that the contents of this document do not replace any guidance contained within the Federal Acquisition Regulations (FAR), or the associated policy contained within the FMR, Defense Acquisition Regulations (DFARS), DFARS PGI and DLMS. Should conflicts exist between this document and any formal policy documents, the FAR, DFARS, DFARS PGI, DLMS, and FMR are the prevailing government regulations.

2 Applicability

The rules for data exchanges apply to all procurement and Financial Management (FM) systems and other systems that produce or record contract closeout actions that will not be retired within 36 months of this document’s publication. Some legacy systems’ anticipated lifespan may exceed this timeframe, and will not be able to implement this document’s requirements in a cost-effective manner. Any DoD organizations with active systems that cannot comply with any of this document’s requirements in implementing Handshake 9 by October 1, 2021 may submit a waiver request to the Procure-to-Pay Process Advocates’ Working Group (P2PPAWG) co-chairs. This request must document the business case for non-compliance, as well as the compensating controls that DoD Components will implement to ensure that the outcomes identified in Section 4 are still met.

In situations where Handshake 9 can be performed internally in a single system or a single organization’s environment, the Global Exchange Services (GEX) need not be used. Note that these environments must still be able to interface with external systems via the GEX to accomplish Handshake 9 with external organizations.

The P2PPAWG also recognizes that some Services or Components have, or will have, alternative enterprise service buses to accomplish Handshake 9. These alternatives to the GEX may be approved if they can 1) interface with the GEX to electronically accommodate external transactions, and 2) report metrics.

3 Background

Components face increasing demands from both users who demand that business be conducted more efficiently and policy makers who require increasing visibility into how the DoD spends its money. Having to maintain interoperability with diverse Defense stakeholders, and their specific IT environments, compounds these challenges. Accounting and entitlement systems often lack the detailed information necessary to ensure timely recording of contract closeout actions.

This Standard Operating Procedure (SOP) has been developed in collaboration with DoD Components to minimize the impact to current processes, while meeting accountability requirements, improving overall operations, supporting end-to-end (E2E) business process/activities, and limiting non-compliance with established policies for both Contracting and Financial Management communities. If successful, they will ensure that transparency requirements are met. The overarching objectives of this effort are to enable stakeholders to:

- Increase the processing of contract closeout actions, to include timely deobligation of excess funds.
- Reduce the effort required for data cleansing of aging accounts and tri-annual review of financial transactions.
- Comply with the Federal Funding Accountability and Transparency Act (FFATA) as modified by the Digital Accountability and Transparency Act.¹
- Support DoD Financial Improvement and Audit Remediation (FIAR) goals in support of compliance with the Chief Financial Officers' Act.²
- Reinforce Standards for Internal Control in the Federal Government issued by the U.S. Government Accountability Office (GAO) on September 10, 2014, and OMB Circular No. A-123 and the statute it implements, the Federal Managers' Financial Integrity Act (FMFIA) of 1982.
- Support Records Management requirements established in DoDI 5015.2, Records Management Program, and Administrative Instruction (AI-15) Office of the Secretary of Defense (OSD) Records and Information Management Program.

The objectives cited above will be achieved by instituting a standard set of minimum data elements and business rules, as well as identifying roles and responsibilities of financial and procurement activities or systems at each handshake.

Handshake 9 is the electronic transmission of the contract closeout statement from procurement to financial systems. Key activities relevant to Handshake 9 include:

- "Procurement Instrument Closure Information Sent" – Contracting provides the Contract Completion Statement, utilizing the DLMS 567C, to each Procurement and Financial Management system tracking the open contract actions. The receipt of the Contract Completion Statement authorizes closure of the record of obligation.
- "Excess Funds Deobligated" – Should unliquidated obligations remain at the time of close out, excess funds may be deobligated. The DLMS 567C will be used to de-obligate excess funds at contract closeout in accordance with the FMR Volume 3 Chapter 8 081611 B.

¹ In accordance with the guidance set forth by the Office of Management and Budget (OMB), "Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable", dated 8 May 2015.

² Specifically, ensuring the proper accounting treatment is applied to contracts with financing, per the DPAP memorandum issued 27 February 2015, "Accounting and Reporting Contract Finance Payments."

Contracts that do not qualify for Contract Closeout under FMR Vol. 3, Chapter 8 081611 B shall follow contract modification procedures outlined in the Handshake 3 SOP.

The “Procure-to-Pay Requirements Overview for Data Exchanges” can also be found at the Defense Pricing & Contracting website: <https://www.acq.osd.mil/dpap/pdi/p2p/p2phandshakes.html>.

4 Handshake Procedures

Procedures for passing closeout data from procurement systems to financial systems are provided below.

Handshake 9 Procedures:

Contracts:

- The issuance of a final invoice is required prior to transmittal of the DLMS 567C and certifies that there will not be any forthcoming invoices on a contract.
- Contracting Officers must close contracts in accordance with FAR 4.8 and DFARS 204.8.
 - Contracts meeting the criteria defined in DFARS PGI 204.804-3 may be closed automatically, either using enterprise tools such as Procurement Integrated Enterprise Environment (PIEE) Contract Closeout, or systems (like the Defense Contract Management Agency (DCMA) Mechanization of Contract Administration Services (MOCAS) or the Defense Logistics Agency (DLA) Enterprise Business Systems (EBS)) capable of distributing the closeout in the required DLMS 567C format and meeting other enterprise reporting requirements.
 - Contracts that do not meet the criteria for automated closeout will be closed by the contracting officer. The closeout can be accomplished in enterprise systems capable of distributing the DLMS 567C, such as SPS, PIEE Contract Closeout, or organization-specific tools like MOCAS or EBS.
 - Organizations that are unable to close contracts within their own Component system environments shall leverage the PIEE closeout module, which supports both automated and manual contract closeout.
 - Contracts delegated to DCMA for administration shall be closed by DCMA.
 - Required closeout timelines are identified in FAR 4.804-1.
- Contracting organizations must provide an electronic copy of the Contract Completion Statement via the GEX to Electronic Data Access (EDA), Federal Procurement Data System (FPDS), and each affected Financial Management system (i.e. accounting system, entitlement system, or combined accounting and entitlement system) at the time of contract closeout in accordance with DFARS PGI 204.804. An affected accounting system is defined as any accounting system used to account for funds on a contract during any period in the life of the contract. Additionally, contract administration offices need to send an electronic copy via the GEX to the buying office.
- Excess funds at the time of contract closeout will be identified on the DLMS 567C. This will serve as the de-obligation document. A contract modification to de-obligate funds at contract closeout is not required.

- In accordance with DFARS 204.804(3) implementing section 836 of the National Defense Authorization Act for Fiscal Year 2017 (Pub. L. 114-328) and section 824 of the National Defense Authorization Act for Fiscal Year 2018 (Pub. L. 115-91), contracting officers may close out contracts or groups of contracts through issuance of one or more modifications to such contracts without completing a reconciliation audit or other corrective action in accordance with FAR 4.804-5(a)(3) through (15), as appropriate, if each contract was entered into on a date that is at least 17 fiscal years before the current fiscal year, and the other requirements of this section are met.
- In the event that a contract closeout needs to be cancelled due to corrections or the need to re-open the contract, a cancelling DLMS 567C will be transmitted to all affected parties.

Financial:

- Routing of contract closeout status to entitlement systems will be based on the Pay Office DoDAAC, and to accounting systems based on the Agency Accounting Identifier (AAI). (Note that there is still work to be done to determine routing requirements for contracts paid with a Government Purchase Card.)
- Accounting systems should deobligate funds based on the electronic distribution of the contract actions (*e.g.*, *Contract Completion Statement (DD Form 1594)* or *electronic equivalent (DLMS 567C)*) either through a workflow allowing validation activities, or automatically in accordance with the FMR Volume 3, Chapter 8. This process must ensure that all key data elements that pertain to Handshake 9 (listed in Appendix B) are recorded in the accounting system (or accounting module of an enterprise resource planning system).
- If a deobligation cannot be processed electronically, the accounting records shall be updated manually within 10 business days based on the official closeout document in the EDA System.
- Accounting Systems must have mitigation procedures in place to support scenarios when a DLMS 567C transaction fails to post successfully.

Handshake 9 Outcomes to Ensure:

- Contract closeout procedures are followed in a timely, systematic and robust fashion, as stipulated by authoritative policy sources.
- Manual processing is minimized through the use of automated solutions designed to support the contract closeout process.
- Deobligations are performed in a timely fashion through electronic receipt of data from the authoritative source.
- Contract files, including entitlement files, are disposed of in accordance with FAR 4.805, DFARS 204.805 and FMR Volume 1 Chapter 9 090202.

5 Roles and Responsibilities

Procurement Activity: Complete actions to close contracts in accordance with FAR 4.804, DFARS 204.804, and DFARS PGI 204.804, including distribution of the Contract Completion Statement utilizing the DLMS 567C. Dispose of contract files as required by FAR 4.805, DFARS 204.805 and DFARS PGI 204.805. Detailed procedures for Contract Completion Status Reporting are contained in the DLMS Manual, Volume 7, Chapter 4, identified and linked to DFARS PGI 204.804.

Accounting Activity: Record required deobligation (closeout action) data elements in the relevant accounting system and update financial records as required by FMR Volume 3 Chapter 8. Retain contract files in accordance with FMR Volume 1 Chapter 9.

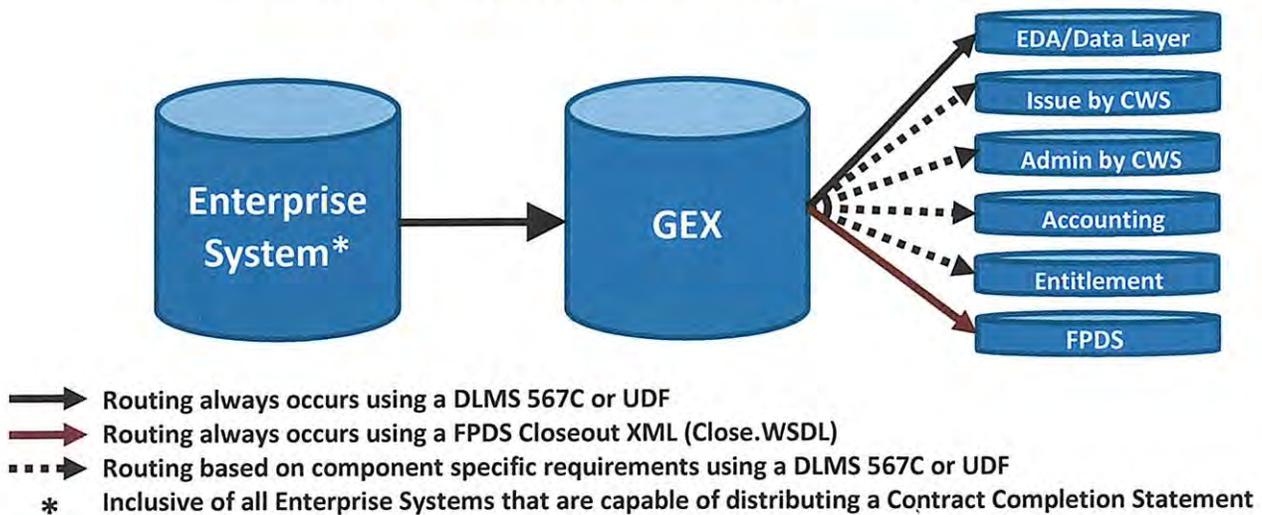
Entitlement Activity: Record closeout and dispose of contract files as required by FAR 4.805, DFARS 204.805 and FMR Volume 1 Chapter 9.

6 Standards and Electronic Transactions

The DLMS 567C and FPDS Closeout XML (Close.WSDL) are the two primary data standards that enable the electronic distribution of the Contract Completion Statement to achieve Handshake 9, meeting requirements set forth in DFARS PGI 204.804. The Contract Completion Statement can also be sent in XML equivalent formats (i.e., a User Defined File (UDF)). Translation at the GEX for data formats other than those afore mentioned is acceptable as long as the Contract Completion Statement contains all of the data elements in the DLMS 567C.

Figure 1 below depicts the ability for all Enterprise Systems capable of distributing a Contract Completion Statement to pass the Contract Completion Statement via the GEX to the appropriate downstream systems. The target state for DoD is for Enterprise Systems to send data through the GEX, as indicated by DFARS 204.201, and for Procurement and Financial Systems to electronically receive those actions from the GEX. In the diagram below, the Enterprise System sends a single transaction with a single header, and the GEX routes it accordingly.

Figure 1 – Contract Closeout Completion Statement Distribution



7 Metrics

Metrics to measure an organization's compliance with the standard operating procedures described in this document must measure each side of each electronic transaction, or handshake. The metrics detailed below are designed to recognize that progress towards achieving the objectives in this SOP will be incremental, and that in a mixed legacy/new environment not all success will be synchronous. Components are required to submit these metrics to the P2PPAWG POC for Handshake 9 Metrics on a quarterly basis.

Handshake 9 Metrics:

Contracts:

- a) Percent of contract actions where a DLMS 567C closeout is sent to EDA (DLMS 567Cs to EDA divided by actions with final payments).
- b) Percent of open physically complete contracts past the regulatory closeout date (open physically complete contracts past the time frame documented in FAR 4.804 divided by the total number of open physically complete contracts).
- c) Percentage of closed contracts closed within the regulatory time frame (contracts closed within the regulatory time frame documented in FAR 4.804 divided by the total number of contracts closed).
- d) Number of open contracts with a final payment request submitted.

Financial:

- e) Percent of closeout statements recorded electronically by Accounting Systems (DLMS 567Cs in EDA divided by DLMS 567Cs recorded in accounting systems).
- f) Number of contracts awaiting replacement funds for contract closeout.
- g) Number of physically complete contracts with funds that will cancel at the end of the current fiscal year.

8 Internal Controls

For all contracts, the Procuring Contracting Officer (PCO) or Administrative Contracting Officer (ACO) should review for excess funds at time of contract closeout. If there are excess funds, the PCO or ACO will identify those funds on the DLMS 567C which will trigger the capture of excess funds by FM. Upon such action, a formal closeout modification is not required. *Sources: FAR 4.804; and DoDFMR Volume 3, Chapter 8, Section 081611 B.*

Systems shall maintain contracts and supporting documentation (for example payment record retention) for the periods established in FAR 4.805, DFARS 204.805 and FMR Volume 1 Chapter 9. At a minimum, records retention shall meet the requirements of DoD Directive 5015.2, "Department of Defense Records Management Program." *Sources: Chapters 29, 31, 33, and 35 of title 44, United States Code; DoDFMR Volume 1, Chapter 9; and FAR 4.805; DFARS 204.805.*

Contracting officers may close out contracts or groups of contracts through issuance of one or more modifications to such contracts without completing a reconciliation audit or other corrective action in accordance with FAR 4.804-5(a)(3) through (15), as appropriate, if each contract was entered into on a date that is at least 17 fiscal years before the current fiscal year, and the other requirements of this section are met. *Sources: Section 836 of the National Defense Authorization Act for Fiscal Year 2017 (Pub. L. 114-328) and section 824 of the National Defense Authorization Act for Fiscal Year 2018 (Pub. L. 115-91) and DFARS 204.804(3).*

Appendix A: Interface Standards

The DoD has identified and defined a minimum set of data elements (found within the prescribed data standards) which are required to show traceability through the P2P process (See Appendix B). The goal is to identify the initiation point of each data element where the data must be captured, and then pass only the minimum set of data needed to create traceability to the next process step. The key Financial Management and Procurement data standards that follow provide such further definition:

1. **DLMS 567C “Contract Completion Status”** – The Federal Government has developed and published Implementation Conventions for use of the ANSI standards in contracting. FAR 53.105 provides for use of these standards or “a format that can be translated into one of those standards” in lieu of the prescribed standard forms as a means of conducting business electronically. The DLMS 567C transaction set is used to execute contract completion. For most purposes, including the procedures set forth herein, the DLMS 567C format contains all required minimum data in Appendix B sufficient to record the contract completion.
2. **Federal Procurement Data System (FPDS) Closeout XML, also known as “Close.WSDL”** – Notices to FPDS are performed by GEX, therefore there is no requirement for any DoD system, other than GEX, to use this interface. In accordance with FAR 4.6, Federal Agencies are required to report contract actions to FPDS. This data is used to satisfy numerous reporting requirements. As part of release v1.5 of FPDS, the system was updated with the ability to receive Contract Completion Statements, and then use this data to close the individual contract record in FPDS. The format in which FPDS will receive Contract Completion Statements is identified in the FPDS Closeout XML (Close.WSDL) file available on the FPDS worksite (under v1.5 Specifications) at https://www.fpds.gov/fpdsng_cms/index.php/en/worksite.html. The GEX will be used to route Contract Completion Statements and transform these into the FPDS required format. DLMS 567C transactions sent through the GEX to EDA will be translated to the FPDS Closeout XML (Close.WSDL) format and routed to FPDS to indicate that contracts have been closed.

Appendix B: DLMS 567C Required Data Elements

Figure 2 - Data Elements to be recorded in Accounting, Entitlement, and Contracting Systems

Required Data Element	Regulatory Reference	Record in Accounting	Record in Entitlement (for externally closed)	Record in Contracting (for externally closed)
Procurement Instrument Identifier (PIID)	FAR 4.16	X	X	X
Contractor and Government Entity (CAGE) Code	FAR 4.18	X		
Contracting Office Activity Address Code (AAC), i.e. DoDAAC	FAR 4.804-5 DLM 4000.25 Volume 7 Chapter 4	X		
Contract Administration Office AAC, i.e. DoDAAC	FAR 4.804-5 DLM 4000.25 Volume 7 Chapter 4	X		
Pay Office AAC, i.e. DoDAAC	FAR 4.804-5 DLM 4000.25 Volume 7 Chapter 4	X		
Last modification number.	FAR 4.804-5	X		
Dollar amount of excess funds, if any.	FAR 4.804-5	X		
Voucher number and date or final invoice number and date	FAR 4.804-5	X	X	X
Contract Closeout Date	FAR 4.804-5	X	X	X

Below is the link to the DLMS 567C Supplement with additional information on the electronic Contract Completion Statement:

https://www.dla.mil/Portals/104/Documents/DLMS/Transformats/Supplements/4010/004010F567C1CA03_No v0317_admin_URL_update.pdf