



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

August 6, 1997

DP/CPF

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,
ASN(RD&A)/ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
ASSISTANT DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)/DIRECTOR FOR CONTRACTING
DEPUTY DIRECTOR (ACQUISITION), DEFENSE
LOGISTICS AGENCY

SUBJECT: Progress Payment Distribution

By memorandum of July 23, 1997 (attached), the Under Secretary of Defense (Comptroller) (USD(C)) informed me that he had instructed the Defense Finance and Accounting Service (DFAS) to begin charging progress payments to the obligations that fund the contract deliverables for which costs have been incurred. This will require contracting officers to provide instructions to DFAS on how progress payments should be distributed to individual contract line items (CLINs) and subline items (SLINs). When more than one accounting classification reference number (ACRN) is assigned to a CLIN/SLIN, instructions must also be provided for distribution at the ACRN level. Distribution instructions should reflect the contracting officer's best estimate regarding the type of work performed by the contractor, based on available information. This requirement will apply to contracts awarded after September 30, 1997, as well as to existing contracts that had fewer than five progress payments issued as of October 1, 1997.

A proposed revision to the Defense Federal Acquisition Regulation Supplement was published on June 5, 1997, to require that contracting officers provide such information to paying offices (attached). We expect that rule will be finalized before September 30; it should be used for all contracts issued after September 30, 1997.

DFAS will provide a list of existing contracts that had fewer than five progress payments issued as of October 1, 1997, to the cognizant contract administration offices as soon as possible. Contract administration offices should consult with contracting officers and then provide DFAS information on how

progress payments already made should be distributed on those contracts. Contract administration offices will also be responsible for providing progress payment distribution instructions for future progress payments made against these contracts.

The overall limit on progress payments on a contract, established through application of the contract progress payment rate, and, when applicable, a loss ratio, will continue to govern the total amount of progress payments that may be paid on the contract. These limits should continue to be applied on a total contract basis.

The USD(C) has asked that we estimate by August 15 the impact of this requirement on employment levels and operating costs, including contractor costs that would likely be passed on to the Department. While it may not be possible to obtain estimates that quickly, I ask that you provide any information that might be helpful to my office in developing estimates as soon as possible.

My office will be working with DFAS representatives to establish operating procedures to implement this new requirement. We expect to provide additional guidance as soon as we complete that effort.



Eleanor R. Spector
Director, Defense Procurement

Attachments



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JUL 23 1997



MEMORANDUM FOR DIRECTOR OF DEFENSE PROCUREMENT

SUBJECT: Progress Payment Distribution

Currently, progress payments frequently are being prorated proportionately to all available accounting lines, usually when the paying office is not provided specific distribution instructions. Both the Office of the Inspector General and the Office of the General Counsel (DoD) have advised that progress payments must be based on best estimates of the specific work being performed under the contract using available information.

I have directed the Defense Finance and Accounting Service (DFAS), effective October 1, 1997, to begin charging progress payments to the obligations that correspond to the deliverables for which costs were incurred during the period covered by the request. Therefore, I request that you notify the Department's contracting and contract administration offices that they will be required to provide the distribution information identified below.

Paying offices must be provided payment distribution instructions for all progress payment requests that are applicable to contracts meeting either of the following: (1) contracts awarded after September 30, 1997; or (2) contracts awarded prior to October 1, 1997, that have fewer than 5 progress payment issued as of October 1, 1997. I have directed the DFAS to provide its customers with the identification of the existing contracts subject to these requirements, and to request an accurate distribution of any progress payments that have been issued under those contracts.

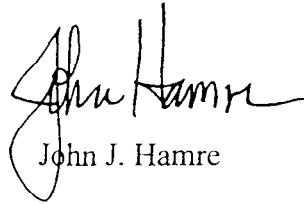
The contracting officer or contract administration office (CAO) must provide the paying office the distribution of each progress payment to the applicable contract line items/subline items (CLINs/SLINs). In addition, for CLINs/SLINs funded with more than one accounting classification reference number (ACRN), information must be provided at the ACRN level.

Progress payments must continue to be paid within the established timeframes. Therefore, it is important that contracting offices and CAOs provide prompt response to requests from paying offices for distribution information.

I have been asked to provide the Congress the impacts of implementing this requirement. Please identify the impact of this requirement on employment levels and operating costs that can be expected. Also, to the extent possible, please identify the additional costs that may be incurred by the Department's contractors and are likely to be passed on to the Department in the form of higher prices. I would appreciate this information by August 15, 1997.

ATTACHMENTS

The staff point of contact for this issue is Mr. Henry Bezold. He can be reached via email at bezoldh@ousdc.osd.mil, or by phone at (703) 614-3523.



John J. Hamre

Draft DFARS Change
DFARS Case 97-D011
Distribution of Contract Financing Payments

PART 214--SEALED BIDDING

* * * * *

SUBPART 214.2--SOLICITATION OF BIDS

* * * * *

[214.201-2 Part I--The Schedule

(g) Section G, Contract administration data.

When a contract contains multiple accounting classification citations and includes a provision for contract financing payments (see FAR 32.902), the contracting officer shall provide instructions based on one of the following alternatives, adequate to permit the paying office to distribute the contract financing payment in proportions that reasonably reflect the performance of the work on the contract. Payment instructions shall not be selected solely on the basis of administrative convenience. The payment instructions may be updated as necessary.

(i) *Contract financing payments based on information supplied in accordance with contract requirements.* Payments will be made in a manner consistent with information provided by the contractor as a result of a contract requirement. For example, payment could be based on: (1) a payment distribution profile developed by the contracting officer from a contract funds status report, or other form of cost reporting, that identifies actual funds usage by contract line item (or subline item) (CLIN/SLIN); or (2) information contractually required to be included on the contractor's payment request, identifying the amount of payment to be made for each CLIN/SLIN against which payment is requested.

(ii) *Contract financing payments based on a unique payment distribution profile.* Payments will be based on a payment distribution profile established by the contracting officer at contract award or as revised during contract performance. The profile must indicate, for each anticipated payment, a percentage apportionment by CLIN/SLIN, based on anticipated contract performance. Payment distribution profiles may be derived from information supplied by the contractor, contract administration office, program office, or elsewhere.

Payment profiles may reflect a combination of the other alternatives described herein; however, each CLIN/SLIN may use only one method (see 204.7103-1 and 204.7104-1).

(iii) *Contract financing payments distributed on a proportionate percentage basis.* Payments will be distributed on a proportionate percentage basis against all CLINs/SLINs when a best estimate of contractor work performance supports an assumption that work will be performed for all CLINs/SLINs in a relatively proportionate manner.

(iv) *Contract financing payments using oldest funds first.* This payment method should be used only when other payment instruction options are not practicable. When used, payments will be made from the appropriate accounting classification citations in a sequence that enables exhaustion of the oldest fiscal year financing appropriation, before payments are made from more recent fiscal year appropriations. This form of payment instruction most typically applies to requirements that are funded by research, development, test and evaluation appropriations for successive fiscal years.]

* * * * *

[214.201-9 Simplified contract format.

(b) Contract schedule.

(8) See 214.201-2(g) for contracts that contain multiple accounting classification citations and include a provision for contract financing payments.]

* * * * *

PART 215--CONTRACTING BY NEGOTIATION

* * * * *

SUBPART 215.4--SOLICITATION AND RECEIPT OF PROPOSALS AND QUOTATIONS

* * * * *

215.406-2 Part I--The Schedule

(g) Section G, Contract administration data.

[(i)] * * *

(ii) When a contract contains multiple accounting classification citations and includes a provision for contract financing payments (see FAR 32.902), the contracting officer shall provide instructions based on one of the following alternatives, adequate to permit the paying office to distribute the contract financing payment in proportions that reasonably reflect the performance of the work on the contract. Payment instructions shall not be selected solely on the basis of administrative convenience. The payment instructions may be updated as necessary.

(A) *Contract financing payments based on information supplied in accordance with contract requirements.* Payments will be made in a manner consistent with information provided by the contractor as a result of a contract requirement. For example, payment could be based on: (1) a payment distribution profile developed by the contracting officer from a contract funds status report, or other form of cost reporting, that identifies actual funds usage by contract line item (or subline item) (CLIN/SLIN); or (2) information contractually required to be included on the contractor's payment request, identifying the amount of payment to be made for each CLIN/SLIN against which payment is requested.

(B) *Contract financing payments based on a unique payment distribution profile.* Payments will be based on a payment distribution profile established by the contracting officer at contract award or as revised during contract performance. The profile must indicate, for each anticipated payment, a percentage apportionment by CLIN/SLIN, based on anticipated contract performance. Payment distribution profiles may be derived from information supplied by the contractor, contract administration office, program office, or elsewhere. Payment profiles may reflect a combination of the other alternatives described herein; however, each CLIN/SLIN may use only one method (see 204.7103-1 and 204.7104-1).

(C) *Contract financing payments distributed on a proportionate percentage basis.* Payments will be distributed on a proportionate percentage basis against all CLINs/SLINs when a best estimate of contractor work performance supports an assumption that work will be performed for all CLINs/SLINs in a relatively proportionate manner.

(D) *Contract financing payments using oldest funds first.* This payment method should be used only when other payment instruction options are not practicable. When used, payments will be made from the appropriate accounting classification citations in a sequence that enables exhaustion of the oldest fiscal year financing appropriation, before payments are made from more recent fiscal year appropriations. This form of payment instruction most typically applies to requirements that are funded by research, development, test and evaluation appropriations for successive fiscal years.]