



ACQUISITION
AND SUSTAINMENT

OFFICE OF THE ASSISTANT SECRETARY OF WAR
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

In reply refer to
DARS Tracking Number: 2026-O0050

MEMORANDUM FOR COMMANDER, UNITED STATES CYBER
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DEFENSE AGENCY AND DOD FIELD ACTIVITY DIRECTORS

SUBJECT: Class Deviation—Revolutionary Federal Acquisition Regulation (FAR) Overhaul
Part 42, Defense FAR Supplement (DFARS) Part 242

Effective March 16, 2026, contracting officers shall use—

- The revised FAR Part 42, Contract Administration and Audit Services, published on the Revolutionary FAR Overhaul web page at <https://www.acquisition.gov/far-overhaul/far-part-deviation-guide/far-overhaul-part-42> in lieu of the text codified at 48 CFR chapter 1 (<https://www.ecfr.gov>).
- The attached DFARS Part 242, Contract Administration and Audit Services, in lieu of the text codified at 48 CFR chapter 2; and
- The attached DFARS Procedures, Guidance, and Information (PGI) 242, Contract Administration and Audit Services, in lieu of the PGI text published on the Defense Pricing, Contracting, and Acquisition Policy web page at <https://www.acq.osd.mil/dpap/dars/dfarspgi/current/index.html>.

This class deviation implements the following:

- Section 2 of E.O. 14275, Restoring Common Sense to Federal Procurement, which establishes the policy that the FAR “should only contain provisions required by statute or essential to sound procurement, and any FAR provisions that do not advance these objectives should be removed.”

- Section 4(a) of E.O. 14265, Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base which requires the Secretary of War to eliminate or revise any unnecessary supplemental regulations or any other internal guidance, such as relevant parts of the Financial Management Regulation and Defense Federal Acquisition Regulation Supplement.
- The Office of Management and Budget memorandum, M-25-26 issued on May 2, 2025, titled, Overhauling the Federal Acquisition Regulation, which provided additional guidance to federal agencies regarding the FAR overhaul.

This class deviation remains in effect until rescinded or incorporated into the FAR, DFARS, and DFARS PGI. Inquiries regarding this class deviation can be addressed to osd.pentagon.ousd-a-s.mbx.dfars@mail.mil.

John M. Tenaglia
Principal Director,
Defense Pricing, Contracting, and
Acquisition Policy

Attachments:
As stated

PART 242—CONTRACT ADMINISTRATION AND AUDIT SERVICES

242.001-70 Interagency agreements.

(a) DoD requires reimbursement, at a rate set by the Under Secretary of Defense (Comptroller/Chief Financial Officer), from non-DoD organizations, except for—

(1) Quality assurance, contract administration, and audit services provided under a no-charge reciprocal agreement;

(2) Services performed under subcontracts awarded by the Small Business Administration under FAR 19.108; and

(3) Quality assurance performed for the Canadian Department of National Defence and pricing services performed for Public Works and Government Services Canada (PWGSC), operating as Public Services and Procurement Canada (PSPC).

(b) Departments and agencies may request an exception from the reimbursement policy in paragraph (a) of this section from the Under Secretary of Defense (Comptroller/Chief Financial Officer). The request must show that an exception is in the best interest of the Government.

(c) Departments and agencies must pay for services performed by non-DoD activities, foreign governments, or international organizations, unless specified otherwise by reciprocal agreements.

(d) Foreign governments and international organizations may request contract administration services on their direct purchases from U.S. producers. Direct purchase is the purchase of defense supplies in the United States through commercial channels for use by the foreign government or international organization.

(1) PWGSC, operating as PSPC, is permitted to submit its requests for contract administration services directly to the cognizant contract administration office.

(2) Other foreign governments (including Canadian government organizations other than PSPC and international organizations) send their requests for contract administration services to the DoD Central Control Point (CCP) at the Headquarters, Defense Contract Management Agency, International and Federal Business Team. Contract administration offices provide services only upon request from the CCP. The CCP must follow the procedures at PGI 242.001-70(d)(2).

SUBPART 242.2—CONTRACT ADMINISTRATION SERVICES

242.202-70 Assignment of contract administration.

(a) Unless an exception in paragraph (b) of this section applies, the Defense Contract Management Agency (DCMA) must administer any contract that requires performance of any contract administration function at or near a contractor facility.

(1) DCMA has contracting personnel assigned to perform contract administration at contractor facilities.

(2) Contracting activities may not locate contracting office personnel at contractor facilities, except—

(i) In support of contracts retained for administration in accordance with paragraph (b) of this section; or

(ii) As permitted under subpart 242.74.

(3) DCMA must provide preaward survey assistance for work performed on a base, post, camp, station, or other military installation. The contracting office and the DCMA preaward survey monitor should jointly determine the scope of the survey and individual responsibilities.

(b) DoD activities must retain contract administration for any of the following contracts:

(1) The National Security Agency contracts;

(2) Contracts for research and development with universities;

(3) Flight training contracts;

(4) Management and professional support services contracts;

(5) Mapping, charting, and geodesy services contracts;

(6) Base, post, camp, and station purchases, including services performed onsite (see PGI 242.202-70(b)(6));

(7) Contracts for operation or maintenance of, or installation of equipment at, radar or communication network sites;

(8) Communications services contracts;

(9) Contracts for installation, operation, and maintenance of space-track sensors and relays;

(10) Dependents Medicare program contracts;

(11) Stevedoring contracts;

(12) Contracts for construction and maintenance of military and civil public works, including harbors, docks, port facilities, military housing, development of recreational facilities, water resources, flood control, and public utilities;

(13) Architect-engineer services contracts;

(14) Airlift and sealift services contracts (Air Mobility Command and Military Sealift Command may perform contract administration services at contractor locations involved solely in performance of airlift or sealift contracts);

(15) Subsistence supply contracts;

(16) Contracts at ballistic missile sites (contract administration offices may perform supporting administration of these contracts at missile activation sites during the installation, test, and checkout of the missiles and associated equipment);

(17) Contracts for operation and maintenance of, or installation of equipment at, military test ranges, facilities, and installations; and

(18) The Defense Energy Support Center, Defense Logistics Agency, contracts.

(19) Contracts awarded to commercial entities for shipbuilding, conversion, and repair at the facilities of such entities.

242.202-71 Secondary delegations of contract administration.

(a) A contract administration office may request support, in special circumstances, from a component not listed in the Federal Directory of Contract Administration Services Components (available via the internet at <https://piee.eb.mil/pcm/xhtml/unauth/index.xhtml>).

(b) Follow the procedures at PGI 242.202-71 when requesting support on a subcontract that includes foreign military sale contract requirements.

SUBPART 242.3—CONTRACT ADMINISTRATION OFFICE FUNCTIONS

242.301 General.

Contract administration services performed outside the United States should be performed in accordance with FAR 42.301 unless there are established policies and procedures addressing the specific situation. In this case, coordinate proposed actions with the appropriate U.S. country teams or commanders of unified and specified commands.

242.302-70 Contract administration functions.

(a)(1) See 242.7502 for ACO responsibilities upon receipt of an audit report identifying significant accounting system or related internal control weaknesses or deficiencies.

(2) For contract administration functions related to IR&D projects and B&P projects performed by major contractors, see 242.570-3(a).

(3) Perform all payment administration in accordance with the applicable payment clauses.

(4) Do not delegate the responsibility to make payments to the Defense Contract Management Agency (DCMA). Follow the procedures at PGI 242.302-70(a)(4) for designation of payment offices.

(5) See PGI 223.370-4 for contract administration responsibilities of contracts for ammunition and explosives.

(6) Incorporate requirements for surveillance of aircraft flight and ground operations into the contract, task order, or delivery order. Use the applicable version of the combined regulation/instruction entitled "Contractor's Flight and Ground

Operations” (Air Force Instruction 10-220, Army Regulation 95-20, Naval Air Systems Command (NAVAIR) Instruction 3710.1 (Series), Coast Guard Instruction M13020.3 (Series), and Defense Contract Management Agency Instruction 8210-1 (Series)). See PGI 242.302-70(a)(6).

(7) Support program offices and buying activities in preaward efforts leading to a solicitation or award.

(8) Serve as the single point of contact for all Single Process Initiative (SPI) Management Council activities. The ACO must negotiate and execute facility-wide class modifications and agreements for SPI processes, when authorized by the affected components.

(9) DCMA is responsible for reviewing earned value management system (EVMS) plans and for verifying initial and continuing contractor compliance with DoD EVMS criteria. Do not retain this function.

(10) Require contractor implementation of the Synchronized Predeployment and Operational Tracker (SPOT) and maintain surveillance over contractor compliance with SPOT business rules available at the website: <https://www.acq.osd.mil/asds/log/cso/ocs/spot.html> for contracts incorporating the clause at 252.225-7040, Contractor Personnel Supporting U.S. Armed Forces Deployed Outside the United States. See PGI 242.302-70(a)(10) for guidance on assessing contractor’s implementation of SPOT.

(11) Maintain surveillance over contractor compliance with trafficking in persons requirements for all DoD contracts for services incorporating the clause at FAR 52.222-50, Combating Trafficking in Persons, and, when necessary, its Alternate I, as identified in the clause prescription at FAR 22.1703-2. (See PGI 222.1703.)

(12) Approve or disapprove contractor business systems, as identified in the clause at 252.242-7998, Contractor Business Systems.

(13) See PGI 242.302-70(a)(13) for guidelines on monitoring contractor costs.

(14) Review and audit contractor identification of contractor-approved suppliers for the acquisition of electronic parts, as identified in the clause at 252.246-7008, Sources of Electronic Parts.

(b)(1) Issue, negotiate, and execute orders under basic ordering agreements for overhaul, maintenance, and repair of ships, only upon prior coordination and agreement with the ACO.

(2) Work with the contract administration office (CAO) to resolve questioned direct costs.

(i) Negotiate or settle questioned direct costs in an incurred cost audit, except for classified contracts. The procuring contracting officer may delegate this authority to the CAO only upon prior coordination and agreement with the CAO. Upon such delegation, the procuring contracting officer must provide the CAO access within 30 days to all supporting documentation in their possession related to the questioned direct costs in an incurred cost audit.

(ii) After settlement of the questioned direct costs, the CAO must provide the procuring contracting office the results of the settlement. The procuring contracting office must make any adjustments resulting from the settlement on affected contracts and report such adjustments to the CAO.

SUBPART 242.4—CORPORATE ADMINISTRATIVE CONTRACTING OFFICER

242.402 Assignment and location.

(c) If the agencies cannot agree, refer the matter to the Principal Director, Defense Pricing, Contracting, and Acquisition Policy.

SUBPART 242.5—INDIRECT COST RATES

242.505 Final indirect cost rates.

See DoD [Class Deviation 2012-00013](#), DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals.

242.505-1 Contracting officer determination procedure.

(a) *Applicability and responsibility.*

(1) The corporate administrative contracting officer and individual administrative contracting officers must jointly decide how to conduct negotiations. Follow the procedures at PGI 242.505-1(a)(1) when negotiations are conducted on a coordinated basis.

242.505-2 Auditor determination procedure.

(b) *Procedures.*

(2)(iii) When agreement cannot be reached with the contractor, the auditor will issue a DCAA Form 1, Notice of Contract Costs Suspended and/or Disapproved, in addition to the advisory report to the administrative contracting officer.

242.507 Quick-closeout procedure.

(a) Defense Contract Management Agency (DCMA) administrative contracting officers are authorized to negotiate the settlement of direct and indirect costs for a specific contract, task order, or delivery order to be closed in advance of the determination of final direct costs and indirect rates set forth in FAR 42.505, regardless of the dollar value or percentage of unsettled direct or indirect costs allocable to the contract, task order, or delivery order.

(2) In lieu of the thresholds at FAR 42.507(a)(2), the amount of unsettled direct costs and indirect costs to be allocated to the contract, task order, or delivery order will be considered relatively insignificant when the total unsettled direct costs and indirect costs to be allocated to any one contract, task order, or delivery order do not exceed \$2 million, regardless of the total contract, task order, or delivery order amount.

242.570 Independent research and development and bid and proposal costs.

242.570-1 Scope.

This section implements 10 U.S.C. 3762, Independent research and development costs: allowable costs; 10 U.S.C. 3763, Bid and proposal costs: allowable costs; and 10 U.S.C. 3847, Defense Contract Audit Agency: annual report.

242.570-2 Policy.

Defense contractors are encouraged to engage in independent research and development (IR&D) projects that will advance the needs of DoD for future technology and advanced capability (see part 231).

242.570-3 Responsibilities.

(a) The cognizant administrative contracting officer (ACO) or corporate ACO must determine cost allowability of IR&D costs and bid and proposal (B&P) costs as set forth in 231.205-18 and FAR 31.205-18.

(b) The Defense Contract Audit Agency (DCAA)—

(1) Submit an annual report on the DoD-wide B&P program, to the Principal Director, Defense Pricing, Contracting, and Acquisition Policy, Office of the Under Secretary of Defense for Acquisition and Sustainment, in connection with 10 U.S.C. 3763(c); DCMA or the military department responsible for performing contract administration functions is responsible for providing DCAA with statistical information, as necessary; and

(2) For IR&D costs and B&P costs incurred under any DoD contract in the previous Government fiscal year, submit an annual report to the congressional defense committees as required by 10 U.S.C. 3847.

(c) The Office of the Under Secretary of Defense for Research and Engineering (OUSD(R&E)), is responsible for establishing a regular method for communication—

(1)(i) From DoD to contractors, of timely and comprehensive information regarding planned or expected needs of DoD for future technology and advanced capability, by posting information on communities of interest and upcoming meetings on the Defense Technical Information Center (DTIC) website at <https://defenseinnovationmarketplace.dtic.mil/communities-of-interest>; and

(ii) From contractors to DoD, of brief technical descriptions of contractor IR&D projects; and

(2) By providing OUSD(R&E) contact information: osd.pentagon.ousd-re.mbx.communications@mail.mil.

SUBPART 242.6—DISALLOWANCE OF COSTS

242.603-70 Disallowing costs after incurrence.

(a) *Contracting officer receipt of vouchers.* Contracting officer receipt of vouchers is applicable only for cost-reimbursement contracts with the Canadian Commercial Corporation. See PGI 225.870-5 for invoice procedures.

(b) *Auditor receipt of voucher.*

(1) The contract auditor is the authorized representative of the contracting officer for—

(i) Receiving vouchers from contractors electronically or by other delivery methods as directed by the terms of the contract;

(ii) Approving interim vouchers, that were selected using sampling methodologies for provisional payment and sending them to the disbursing office after a pre-payment review. Interim vouchers not selected for a pre-payment review are considered provisionally approved and will be sent directly to the disbursing office. All provisionally approved interim vouchers are subject to a later audit of actual costs incurred;

(iii) Reviewing completion/final vouchers and sending them to the administrative contracting officer; and

(iv) Issuing DCAA Forms 1, Notice of Contract Costs Suspended and/or Disapproved, to deduct costs where allowability is questionable.

(2) The administrative contracting officer—

(i) Approves all completion/final vouchers and sends them to the disbursing officer; and

(ii) May issue or direct the issuance of DCAA Form 1 on any cost when there is reason to believe it should be suspended or disallowed.

SUBPART 242.8—PRODUCTION SURVEILLANCE AND REPORTING

242.803-70 Surveillance requirements.

The cognizant contract administration office—

(a) Must perform production surveillance on all contractors that have Criticality Designator A or B contracts;

(b) Must not perform production surveillance on contractors that have only Criticality Designator C contracts, unless specifically requested by the contracting officer; and

(c) When production surveillance is required—

(1) Conduct a periodic risk assessment of the contractor to determine the degree of production surveillance needed for all contracts awarded to that contractor. The risk assessment must consider information provided by the contractor and the contracting officer;

(2) Develop a production surveillance plan based on the risk level determined during a risk assessment;

(3) Modify the production surveillance plan to incorporate any special surveillance requirements for individual contracts, including any requirements identified by the contracting officer; and

(4) Monitor contract progress and identify potential contract delinquencies in accordance with the production surveillance plan. Contracts with Criticality Designator C are exempt from this requirement unless specifically requested by the contracting officer.

242.804-70 Assignment of criticality designator.

See PGI 242.804-70 for criticality designator assignment procedures.

242.804-71 Reporting requirements.

See PGI 242.804-71 for production and surveillance reporting requirements

242.805-70 Contract clause.

(a) When using the clause at FAR 52.242-2, include the following instructions in the contract schedule—

(1) Frequency and timing of reporting (normally five working days after each reporting period);

(2) Line items, exhibits, or exhibit line items requiring reports;

(3) Offices (with addressees/codes) where reports should be sent (always include the contracting office and contract administration office); and

(4) The following requirements for report content—

(i) The problem, actual or potential, and its cause;

(ii) Items and quantities affected;

(iii) When the delinquency started or will start;

(iv) Actions taken to overcome the delinquency;

(v) Estimated recovery date; and/or

(vi) Proposed schedule revision.

SUBPART 242.9—NOVATION AND CHANGE-OF-NAME AGREEMENTS

242.902-70 Processing agreements.

Process and execute novation and change-of-name agreements in accordance with the procedures at PGI 242.902-70.

242.903 Applicability of novation agreements.

(i) When a novation agreement is required and the transferee intends to incur restructuring costs as defined at 231.205-70, include the following provision as paragraph (b)(7) of the novation agreement instead of the paragraph (b)(7) provided in the sample format at FAR 42.903(i):

“(7)(i) Except as set forth in paragraph (7)(ii), the Transferor and the Transferee agree that the Government is not obligated to pay or reimburse either of them for, or otherwise give effect to, any costs, taxes, or other expenses, or any related increases, directly or indirectly arising out of or resulting from the transfer or this Agreement, other than those that the Government in the absence of this transfer or Agreement would have been obligated to pay or reimburse under the terms of the contracts.

(ii) The Government recognizes that restructuring by the Transferee incidental to the acquisition/merger may be in the best interests of the Government. Restructuring costs that are allowable under Part 31 of the Federal Acquisition Regulation (FAR) or Part 231 of the Defense Federal Acquisition Regulation Supplement (DFARS) may be reimbursed under flexibly-priced novated contracts, provided the Transferee demonstrates that the restructuring will reduce overall costs to the Department of Defense (DoD) (and to the National Aeronautics and Space Administration (NASA), where there is a mix of DoD and NASA contracts), and the requirements included in DFARS 231.205-70 are met. Restructuring costs are prohibited on novated contracts unless there is an audit of the restructuring proposal; a determination by the contracting officer of overall reduced costs to DoD/NASA; and an Advance Agreement setting forth a cumulative cost ceiling for restructuring projects and the period to which such costs shall be assigned”.

SUBPART 242.11—CONTRACTOR PERFORMANCE INFORMATION

242.1102-70 Policy.

(a) Include the following in the Contractor Performance Assessment Reporting System (CPARS)—

(1) Assessments of the contractor’s performance against, and efforts to achieve, the goals identified in its comprehensive small business subcontracting plan when the contract contains 252.219-7997 Small Business Subcontracting Plan (Test Program);

(2) Notations on contractors that have denied multiple requests for submission of data other than certified cost or pricing data over the preceding 3-year period, but nevertheless received an award, unless exempted by the head of the contracting activity (10 U.S.C. 3705(b)(2)(B)); and

(3) Information on contractor compliance with requirements of the clause at 252.247-7023, Transportation of Supplies by Sea (see 10 U.S.C. 2631(d)).

(b) Evaluate contractor performance for contracts, task orders, and delivery orders using the thresholds at DFARS 215.104-70(g) in lieu of the thresholds at FAR 42.1102(b) through (d).

(c) See DFARS subparts 208.2 and 208.3 for evaluating service contracts awarded to AbilityOne participating nonprofit agencies and Federal Prison Industries, Inc., respectively.

SUBPART 242.70—CONTRACTOR BUSINESS SYSTEMS

242.7000 Contractor business system deficiencies.

(a) *Definitions.* As used in this subpart—

“Acceptable contractor business systems” means contractor business systems that comply with the terms and conditions of the applicable business system clauses listed in the definition of “contractor business systems” in this section.

“Contractor business systems” means—

(i) Accounting system, if the contract includes the clause at 252.242-7999, Accounting System Administration;

(ii) Earned value management system, if the contract includes the clause at 252.234-7999, Earned Value Management System;

(iii) Estimating system, if the contract includes the clause at 252.215-7002, Cost Estimating System Requirements;

(iv) Material management and accounting system, if the contract includes the clause at 252.242-7997, Material Management and Accounting System;

(v) Property management system, if the contract includes the clause at 252.245-7003, Contractor Property Management System Administration; and

(vi) Purchasing system, if the contract includes the clause at 252.244-7998, Contractor Purchasing System Administration.

“Covered contract” means a contract that is subject to the Cost Accounting Standards under 41 U.S.C. chapter 15, as implemented in regulations found at 48 CFR 9903.201-1 (10 U.S.C. 3841 note prec).

(b) *Determination to withhold payments.* If the contracting officer makes a final determination to disapprove a contractor’s business system in accordance with the clause at 252.242-7998, Contractor Business Systems, the contracting officer must—

(1) In accordance with agency procedures, identify one or more covered contracts containing the clause at 252.242-7998 from which payments will be withheld. When identifying the covered contracts from which to withhold payments, the contracting officer must ensure that the total amount of payment withholding under 252.242-7998, when there are material weaknesses in multiple contractor business systems, does not exceed 10 percent of progress payments, performance-based payments, and interim payments under cost-reimbursement, labor-hour, and time-and-

materials contracts billed under each of the identified covered contracts. Similarly, the contracting officer must ensure that the total amount of payment withholding under the clause at 252.242-7998 for each business system does not exceed 5 percent of progress payments, performance-based payments, and interim payments under cost-reimbursement, labor-hour, and time-and-materials contracts billed under each of the identified covered contracts. The contracting officer has the sole discretion to identify the covered contracts from which to withhold payments.

(2) Promptly notify the contractor, in writing, of the contracting officer's determination to implement payment withholding in accordance with the clause at 252.242-7998. Include the notice of payment withholding in the written final determination for the contractor business system and inform the contractor that—

(i) Payments must be withheld from the contract or contracts identified in the written determination in accordance with the clause at 252.242-7998 until the contracting officer determines that there are no remaining material weaknesses; and

(ii) The contracting officer reserves the right to take other actions within the terms and conditions of the contract.

(3) Provide a copy of the determination to all contracting officers administering the selected contracts from which payments will be withheld. The contracting officer must also provide a copy of the determination to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

(c) *Monitoring contractor's corrective action.* In consultation with the auditor or functional specialist, monitor the contractor's progress in correcting the weaknesses. Notify the contractor of any decision to decrease or increase the amount of payment withholding in accordance with the clause at 252.242-7998.

(d) *Correction of material weaknesses.*

(1) If the contractor notifies the contracting officer that the contractor has corrected the material weaknesses, the contracting officer must request the auditor or functional specialist to review the correction to verify that the weaknesses have been corrected. If, after receipt of verification, the contracting officer determines that the contractor has corrected all material weaknesses as directed by the contracting officer's final determination, the contracting officer must discontinue the withholding of payments, release any payments previously withheld, and approve the system, unless other material weaknesses remain.

(2) Prior to the receipt of verification, the contracting officer may discontinue withholding payments pending receipt of verification, and release any payments previously withheld, if the contractor submits evidence that the material weaknesses have been corrected, and the contracting officer, in consultation with the auditor or functional specialist, determines that there is a reasonable expectation that the corrective actions have been implemented by the contractor and are expected to correct the material weaknesses.

(3) Within 90 days of receipt of the contractor notification that the contractor has corrected the material weaknesses, the contracting officer must—

(i) Make a determination that—

(A) The contractor has corrected all material weaknesses as directed by the contracting officer's final determination in accordance with paragraph (d)(1) of this section;

(B) There is a reasonable expectation that the corrective actions have been implemented in accordance with paragraph (d)(2) of this section; or

(C) The contractor has not corrected all material weaknesses as directed by the contracting officer's final determination in accordance with paragraph (d)(1) of this section, or there is not a reasonable expectation that the corrective actions have been implemented in accordance with paragraph (d)(2) of this section; or

(ii) Reduce withholding directly related to the material weaknesses covered under the corrective action plan by at least 50 percent of the amount being withheld from progress payments and performance-based payments, and direct the contractor, in writing, to reduce the percentage withheld on interim cost vouchers by at least 50 percent, until the contracting officer makes a determination in accordance with paragraph (d)(3)(i) of this section.

(4) If, at any time, the contracting officer determines that the contractor has failed to correct the material weaknesses identified in the contractor's notification, the contracting officer will continue, reinstate, or increase withholding from progress payments and performance-based payments, and direct the contractor, in writing, to continue, reinstate, or increase the percentage withheld on interim cost vouchers to the percentage initially withheld, until the contracting officer determines that the contractor has corrected all material weaknesses as directed by the contracting officer's final determination.

(e) *Sample formats.* See PGI 242.7000 for sample formats of contracting officer determinations for use with the clause at 252.242-7998.

242.7001 Contract clause.

Insert the clause at 252.242-7998, Contractor Business Systems, in solicitations and contracts (other than in contracts with educational institutions, Federally Funded Research and Development Centers (FFRDCs), or University Associated Research Centers (UARCs) operated by educational institutions) when—

- (a) The resulting contract will be a covered contract as defined in 242.7000(a); and
- (b) The solicitation or contract includes any of the following clauses:
 - (1) 252.215-7002, Cost Estimating System Requirements.
 - (2) 252.234-7999, Earned Value Management System.
 - (3) 252.242-7997, Material Management and Accounting System.
 - (4) 252.242-7999, Accounting System Administration.
 - (5) 252.244-7998, Contractor Purchasing System Administration.

(6) 252.245-7003, Contractor Property Management System Administration.

SUBPART 242.71—VOLUNTARY REFUNDS

242.7100 General.

A voluntary refund is a payment or credit (adjustment under one or more contracts or subcontracts) to the Government from a contractor or subcontractor that is not required by any contractual or other legal obligation. Follow the procedures at PGI 242.7100 for voluntary refunds.

SUBPART 242.72—CONTRACTOR MATERIAL MANAGEMENT AND ACCOUNTING SYSTEM

242.7200 Scope of subpart.

(a) This subpart provides policies, procedures, and standards for use in the evaluation of a contractor's material management and accounting system (MMAS).

(b) The policies, procedures, and standards in this subpart—

(1) Apply only when the contractor has contracts exceeding the simplified acquisition threshold that are not for the acquisition of commercial products or commercial services and are either—

(i) Cost-reimbursement contracts; or

(ii) Fixed-price contracts with progress payments made on the basis of costs incurred by the contractor as work progresses under the contract; and

(2) Do not apply to small businesses, educational institutions, or nonprofit organizations.

242.7201 Definitions.

As used in this subpart—

“Acceptable material management and accounting system” means a material management and accounting system that generally complies with the system criteria in paragraph (d) of the clause at 252.242-7997, Material Management and Accounting System.

“Material management and accounting system (MMAS)” means the contractor’s system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems, or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.

“Valid time-phased requirements” means material that is—

(1) Needed to fulfill the production plan, including reasonable quantities for scrap, shrinkage, yield, etc.; and

(2) Charged or billed to contracts or other cost objectives in a manner consistent with the need to fulfill the production plan.

242.7202 Policy.

(a) Contractors are required to have an MMAS that conforms to the standards in paragraph (d) of the clause at 252.242-7997, Material Management and Accounting System, so that the system—

- (1) Reasonably forecasts material requirements;
- (2) Ensures the costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements; and
- (3) Maintains a consistent, equitable, and unbiased logic for costing of material transactions.

(b) If appropriate, in consultation with the auditor and functional specialist—

- (1) Determine the acceptability of the contractor's MMAS and approve or disapprove the system; and
- (2) Pursue correction of any weaknesses or deficiencies.

(c) In consultation with the auditor and functional specialist, if appropriate, determine whether the contractor's MMAS complies with the system criteria for an acceptable MMAS as prescribed in the clause at 252.242-7997, Material Management and Accounting System.

242.7203 Review procedures.

(a) *Criteria for conducting reviews.* Conduct an MMAS review when—

- (1) A contractor has \$40 million of qualifying sales to the Government during the contractor's preceding fiscal year; and
- (2) The administrative contracting officer (ACO), with advice from the auditor, determines an MMAS review is needed based on a risk assessment of the contractor's past experience and current vulnerability.

(b) *Qualifying sales.* Qualifying sales are sales for which certified cost or pricing data were required under 10 U.S.C. 3702, as implemented in FAR 15.403, or that are contracts priced on other than a firm-fixed-price or fixed-price with economic price adjustment basis. Sales include prime contracts, subcontracts, and modifications to such contracts and subcontracts.

(c) *Disposition of findings*—

(1) *Reporting of findings.* The auditor or functional specialist must document findings and recommendations in a report provided to the contracting officer. If the auditor or functional specialist identifies any material weakness, the report must

describe the weaknesses or deficiencies in sufficient detail to allow the contracting officer to understand the weaknesses or deficiencies.

(2) *Initial determination.*

(i) Review findings and recommendations and, if there are no material weaknesses, promptly notify the contractor, in writing, that the contractor's MMAS is acceptable and approved; or

(ii) If there are one or more material weaknesses due to the contractor's failure to meet one or more of the MMAS system criteria in the clause at 252.242-7997—

(A) Promptly make an initial written determination on any material weaknesses and notify the contractor, in writing, providing a description of each material weakness in sufficient detail to allow the contractor to understand the weakness or deficiency;

(B) Request the contractor to respond, in writing, to the initial determination within 30 days; and

(C) Promptly evaluate the contractor's response to the initial determination in consultation with the auditor or functional specialist and make a final determination (see PGI 242.7203(c)(2)).

(3) *Final determination.*

(i) The ACO must make a final determination and notify the contractor that—

(A) The contractor's MMAS is acceptable and approved, and no deficiencies remain; or

(B) Material weaknesses remain. Identify any remaining material weaknesses and indicate the adequacy of any proposed or completed corrective action. The contracting officer must —

(1) Request that the contractor, within 45 days of receipt of the final determination, either correct the weaknesses or submit an acceptable corrective action plan showing milestones and actions to eliminate the weaknesses;

(2) Disapprove the system in accordance with the clause at 252.242-7997; and

(3) Withhold payments in accordance with the clause at 252.242-7998, Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor's corrective action and the correction of material weaknesses in PGI 242.7203(c)(3).

(d) *System approval.* Promptly approve a previously disapproved MMAS and notify the contractor when the contracting officer determines that there are no remaining material weaknesses.

(e) *Contracting officer notifications.* Promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

242.7204 Contract clause.

Insert the clause at 252.242-7997, Material Management and Accounting System, in all solicitations and contracts exceeding the simplified acquisition threshold that are not for the acquisition of commercial products or commercial services and—

(a) Are not awarded to small businesses, educational institutions, or nonprofit organizations; and

(b) Are either—

(1) Cost-reimbursement contracts; or

(2) Fixed-price contracts with progress payments made on the basis of costs incurred by the contractor as work progresses under the contract.

SUBPART 242.73—CONTRACTOR INSURANCE/PENSION REVIEW

242.7301 General.

(a) The administrative contracting officer (ACO) is responsible for determining the allowability of insurance/pension costs in Government contracts and for determining the need for a Contractor/Insurance Pension Review (CIPR). Defense Contract Management Agency (DCMA) insurance/pension specialists and Defense Contract Audit Agency (DCAA) auditors assist ACOs in making these determinations, conduct CIPRs when needed, and perform other routine audits as authorized under FAR 42.505 and 52.215-2. A CIPR is a DCMA/DCAA joint review that—

(1) Provides an in-depth evaluation of a contractor's—

(i) Insurance programs;

(ii) Pension plans;

(iii) Other deferred compensation plans; and

(iv) Related policies, procedures, practices, and costs; or

(2) Concentrates on specific areas of the contractor's insurance programs, pension plans, or other deferred compensation plans.

(b) DCMA is the DoD Executive Agent for the performance of all CIPRs.

(c) DCAA is the DoD agency designated for the performance of contract audit responsibilities related to Cost Accounting Standards administration as described in

FAR subparts 30.1, 30.2, and 30.4 as they relate to a contractor's insurance programs, pension plans, and other deferred compensation plans.

242.7302 Requirements.

(a)(1) Conduct an in-depth CIPR as described at DFARS 242.7301(a)(1) when—

(i) A contractor has \$50 million of qualifying sales to the Government during the contractor's preceding fiscal year; and

(ii) The ACO, with advice from DCMA insurance/pension specialists and DCAA auditors, determines a CIPR is needed based on a risk assessment of the contractor's past experience and current vulnerability.

(2) Qualifying sales are sales for which certified cost or pricing data were required under 10 U.S.C. 3702, as implemented in FAR 15.403, or that are contracts priced on other than a firm-fixed-price or fixed-price with economic price adjustment basis. Sales include prime contracts, subcontracts, and modifications to such contracts and subcontracts.

(b) A special CIPR that concentrates on specific areas of a contractor's insurance programs, pension plans, or other deferred compensation plans must be performed for a contractor (including, but not limited to, a contractor meeting the requirements in paragraph (a) of this section) when any of the following circumstances exists, but only if the circumstance(s) may result in a material impact on Government contract costs:

(1) Information or data reveals a deficiency in the contractor's insurance/pension program.

(2) The contractor proposes or implements changes in its insurance, pension, or deferred compensation plans.

(3) The contractor is involved in a merger, acquisition, or divestiture.

(4) The Government needs to follow up on contractor implementation of prior CIPR recommendations.

(c) The DCAA auditor must use relevant findings and recommendations of previously performed CIPRs in determining the scope of any audits of insurance and pension costs.

(d) When a Government organization believes that a review of the contractor's insurance/pension program should be performed, that organization should provide a recommendation for a review to the ACO. If the ACO concurs, the review should be performed as part of an ACO-initiated special CIPR or as part of a CIPR already scheduled for the near future.

242.7303 Responsibilities.

Follow the procedures at PGI 242.7303 when conducting a CIPR.

SUBPART 242.74—TECHNICAL REPRESENTATION AT CONTRACTOR FACILITIES

242.7400 General.

(a) Program managers may determine that they need technical representation in contractor facilities to perform non-contract administration technical duties and to provide liaison, guidance, and assistance on systems and programs. In these cases, the program manager may assign technical representatives under the procedures in 242.7401.

(b) A technical representative is a representative of a DoD program, project, or system office performing non-contract administration technical duties at or near a contractor facility. A technical representative is not—

(1) A representative of a contract administration or contract audit component;
or

(2) A contracting officer's representative (see 201.404).

242.7401 Procedures.

When the program, project, or system manager determines that a technical representative is required, follow the procedures at PGI 242.7401.

SUBPART 242.75—CONTRACTOR ACCOUNTING SYSTEMS AND RELATED CONTROLS

242.7501 Definitions.

As used in this subpart—

“Acceptable accounting system” means a system that complies with the system criteria in paragraph (c) of the clause at 252.242-7999, Accounting System Administration, to provide reasonable assurance that—

- (1) Applicable laws and regulations are complied with;
- (2) The accounting system and cost data are reliable;
- (3) Risk of misallocations and mischarges are minimized; and
- (4) Contract allocations and charges are consistent with billing procedures.

“Accounting system” means the contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.

242.7502 Policy.

(a) Contractors receiving cost-reimbursement, incentive type, time-and-materials, or labor-hour contracts, or contracts which provide for progress payments based on costs

or on a percentage or stage of completion, are required to maintain an accounting system.

(b) In consultation with the auditor or functional specialist—

(1) Determine the acceptability of a contractor's accounting system and approve or disapprove the system; and

(2) Pursue correction of any weaknesses or deficiencies.

(c) In evaluating the acceptability of a contractor's accounting system, in consultation with the auditor or functional specialist, determine whether the contractor's accounting system complies with the system criteria for an acceptable accounting system as prescribed in the clause at 252.242-7999, Accounting System Administration.

(d) *Disposition of findings*—

(1) *Reporting of findings.* The auditor must submit its findings and recommendations in a report to the contracting officer. If the auditor identifies any material weaknesses, the report must describe the weaknesses or deficiencies in sufficient detail to allow the contracting officer to understand the weaknesses or deficiencies. Follow the procedures at PGI 242.7502 for reporting of deficiencies.

(2) *Initial determination.*

(i) Review findings and recommendations and, if there are no material weaknesses, promptly notify the contractor, in writing, that the contractor's accounting system is acceptable and approved; or

(ii) If there are one or more material weaknesses due to the contractor's failure to meet one or more of the accounting system criteria in the clause at 252.242-7999—

(A) Promptly make an initial written determination on any material weaknesses and notify the contractor, in writing, providing a description of each material weakness in sufficient detail to allow the contractor to understand the weakness;

(B) Request the contractor to respond, in writing, to the initial determination within 30 days; and

(C) Promptly evaluate the contractor's response to the initial determination, in consultation with the auditor or functional specialist, and make a final determination.

(3) *Final determination.*

(i) Make a final determination and notify the contractor, in writing, that—

(A) The contractor's accounting system is acceptable and approved, and no material weaknesses remain; or

(B) Material weaknesses remain. Identify any remaining material weaknesses and indicate the adequacy of any proposed or completed corrective action.

(1) Request that the contractor, within 45 days of receipt of the final determination, either correct the weaknesses or submit an acceptable corrective action plan showing milestones and actions to eliminate the weaknesses;

(2) Make a determination to disapprove the system in accordance with the clause at 252.242-7999; and

(3) Withhold payments in accordance with the clause at 252.242-7998, Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor's corrective action and the correction of material weaknesses in PGI 242.7502(d)(3).

(e) *System approval.* Promptly approve a previously disapproved accounting system and notify the contractor when there are no remaining material weaknesses.

(f) *Contracting officer notifications.* Promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

(g) *Mitigating the risk of deficiencies on specific proposals.*

(1) Field pricing teams must discuss identified deficiencies and their impact in all reports on contractor proposals until the deficiencies are resolved.

(2) When negotiating a proposal generated by an accounting system with an identified deficiency, evaluate whether the deficiency impacts the negotiations. If it does not, proceed with negotiations. See PGI 242.7502(g) for alternatives actions.

242.7503 Contract clause.

Insert the clause at 252.242-7999, Accounting System Administration, in solicitations and contracts when contemplating—

(a) A cost-reimbursement, incentive type, time-and-materials, or labor-hour contract; or

(b) A contract with progress payments made on the basis of costs incurred by the contractor or on a percentage or stage of completion.

SUBPART 242.76—POSTAWARD ORIENTATION

242.7600 Scope of subpart

This subpart prescribes policies and procedures for the postaward orientation of contractors and subcontractors through (a) a conference or (b) a letter or other form of written communication.

242.7601 General.

(a) A postaward orientation aids both Government and contractor personnel to (1) achieve a clear and mutual understanding of all contract requirements and (2) identify and resolve potential problems. However, it is not a substitute for the contractor's fully understanding the work requirements at the time offers are submitted, nor is it to be used to alter the final agreement arrived at in any negotiations leading to contract award.

(b) Postaward orientation is encouraged to assist—

- (1) Small business concerns;
- (2) Small disadvantaged business concerns;
- (3) Veteran-owned small business concerns;
- (4) Service-disabled veteran-owned small business concerns;
- (5) HUBZone small business concerns; and

(6) Women-owned small business concerns (including economically disadvantaged women-owned small business concerns and women-owned small business concerns eligible under the Women-Owned Small Business Program).

(c) While cognizant Government or contractor personnel may request the contracting officer to arrange for orientation, it is up to the contracting officer to decide whether a postaward orientation in any form is necessary.

242.7602 Selecting contracts for postaward orientation.

See PGI 242.7602 when selecting contracts for postaward orientation.

242.7603 Postaward conferences.

242-7603-1 Postaward conference arrangements.

Follow the procedures at PGI 242-7603-1 when planning a postaward conference.

242.7603-2 Postaward conference procedure.

(a) DD Form 1484, Post-Award Conference Record, may be used in conducting a postaward conference and in preparing the conference report.

(b) For contracts that include the clause at 252.234-7004, Cost and Software Data Reporting, discuss the contractor's standard cost and software data reporting (CSDR) process that satisfies the guidelines contained in the DoD 5000.04-M-1, CSDR Manual, and the requirements in the Government-approved CSDR plan for the contract, DD Form 2794, and related Resource Distribution Table.

(c) See PGI 242.7603-3 for additional postaward conference procedures.

242.7603-3 Postaward conference report.

See PGI 242.7603-3 for postaward conference report content and chairperson responsibilities.

242.7604 Postaward letters.

A letter or other written form of communication to the contractor may serve as adequate postaward orientation. The letter should identify the Government representative responsible for administering the contract and cite any unusual or significant contract requirements. Do not make changes to the contract in a postaward letter (see PGI 242.7603-2(c)).

242.7605 Postaward subcontractor conferences.

(a) The prime contractor is generally responsible for conducting postaward conferences with subcontractors. However, the prime contractor may invite Government representatives, including those involved in contract administration, to a conference with subcontractors, or the Government may request that the prime contractor initiate a conference with subcontractors.

(b) Government representatives must—

(1) Recognize the lack of privity of contract between the Government and subcontractors,

(2) Not take action that is inconsistent with or alters subcontracts, and

(3) Ensure that any changes in direction or commitment affecting the prime contract or contractor resulting from a subcontractor conference are made by written direction of the contracting officer to the prime contractor (see PGI 242.7603-2).

SUBPART 252.2—TEXT OF PROVISIONS AND CLAUSES

252.242-7000 Reserved.

252.242-7001 Reserved.

252.242-7002 Reserved.

252.242-7003 Reserved.

252.242-7997 Material Management and Accounting System. (DEVIATION 2026-00050)

As prescribed in 242.7204, use the following clause:

**MATERIAL MANAGEMENT AND ACCOUNTING SYSTEM
(DEVIATION 2026-00050) (MAR 2026)**

(a) *Definitions.* As used in this clause—

“Acceptable material management and accounting system” means a material management and accounting system that generally complies with the system criteria in paragraph (d) of this clause.

“Contractor” means a business unit as defined in Federal Acquisition Regulation (FAR) 2.101.

“Material management and accounting system (MMAS)” means the Contractor’s system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems, or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.

“Material weakness” means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—

- (1) Probable; or
- (2) More than remote but less than likely (section 806 of Pub. L. 116-283).

“Valid time-phased requirements” means material that is—

- (1) Needed to fulfill the production plan, including reasonable quantities for scrap, shrinkage, yield, etc.; and
- (2) Charged or billed to contracts or other cost objectives in a manner consistent with the need to fulfill the production plan.

(b) *General.* The Contractor shall—

- (1) Maintain an MMAS that—
 - (i) Reasonably forecasts material requirements;
 - (ii) Ensures that costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements; and
 - (iii) Maintains a consistent, equitable, and unbiased logic for costing of material transactions; and
- (2) Assess its MMAS and take reasonable action to comply with the MMAS standards in paragraph (e) of this clause.

(c) *Disclosure and maintenance requirements.* The Contractor shall—

- (1) Have policies, procedures, and operating instructions that adequately describe its MMAS;
- (2) Provide to the Administrative Contracting Officer (ACO), upon request, the results of internal reviews that it has conducted to ensure compliance with established MMAS policies, procedures, and operating instructions; and
- (3) Disclose significant changes in its MMAS to the ACO at least 30 days prior to implementation.

(d) *System criteria.* The MMAS shall have adequate internal controls to ensure system and data integrity, and shall—

(1) Have an adequate system description including policies, procedures, and operating instructions that comply with the FAR and Defense FAR Supplement;

(2) Ensure that costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements as impacted by minimum/economic order quantity restrictions.

(i) A 98 percent bill of material accuracy and a 95 percent master production schedule accuracy are desirable as a goal in order to ensure that requirements are both valid and appropriately time-phased.

(ii) If systems have accuracy levels below these, the Contractor shall provide adequate evidence that—

(A) There is no material harm to the Government due to lower accuracy levels; and

(B) The cost to meet the accuracy goals is excessive in relation to the impact on the Government;

(3) Provide a mechanism to identify, report, and resolve system control weaknesses and manual override. Systems should identify operational exceptions, such as excess/residual inventory, as soon as known;

(4) Provide audit trails and maintain records (manual and those in machine-readable form) necessary to evaluate system logic and to verify through transaction testing that the system is operating as desired;

(5) Establish and maintain adequate levels of record accuracy and include reconciliation of recorded inventory quantities to physical inventory by part number on a periodic basis. A 95 percent accuracy level is desirable. If systems have an accuracy level below 95 percent, the Contractor shall provide adequate evidence that—

(i) There is no material harm to the Government due to lower accuracy levels; and

(ii) The cost to meet the accuracy goal is excessive in relation to the impact on the Government;

(6) Provide detailed descriptions of circumstances that will result in manual or system generated transfers of parts;

(7) Maintain a consistent, equitable, and unbiased logic for costing of material transactions as follows:

(i) The Contractor shall maintain and disclose written policies describing the transfer methodology and the loan/pay-back technique.

(ii) The costing methodology may be standard or actual cost, or any of the inventory costing methods in 48 CFR 9904.411-50(b). The Contractor shall maintain

consistency across all contract and customer types, and from accounting period to accounting period for initial charging and transfer charging.

(iii) The system should transfer parts and associated costs within the same billing period. In the few instances where this may not be appropriate, the Contractor may accomplish the material transaction using a loan/pay-back technique. The “loan/pay-back technique” means that the physical part is moved temporarily from the contract, but the cost of the part remains on the contract. The procedures for the loan/pay-back technique must be approved by the ACO. When the technique is used, the Contractor shall have controls to ensure—

- (A) Parts are paid back expeditiously;
- (B) Procedures and controls are in place to correct any overbilling that might occur;
- (C) Monthly, at a minimum, identification of the borrowing contract and the date the part was borrowed; and
- (D) The cost of the replacement part is charged to the borrowing contract;

(8) Where allocations from common inventory accounts are used, have controls (in addition to those in paragraphs (d)(2) and (7) of this clause) to ensure that—

- (i) Reallocations and any credit due are processed no less frequently than the routine billing cycle;
- (ii) Inventories retained for requirements that are not under contract are not allocated to contracts; and
- (iii) Algorithms are maintained based on valid and current data;

(9) Have adequate controls to ensure that physically commingled inventories that may include material for which costs are charged or allocated to fixed-price, cost-reimbursement, and commercial contracts do not compromise requirements of any of the standards in paragraphs (d)(1) through (8) of this clause. Government-furnished material shall not be—

- (i) Physically commingled with other material; or
- (ii) Used on commercial work; and

(10) Be subjected to periodic internal reviews to ensure compliance with established policies and procedures.

(e) *Material weaknesses.*

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any material weaknesses. The initial determination will describe the underlying deficiency in sufficient detail to allow the Contractor to understand the weaknesses or deficiencies.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies material weaknesses in the Contractor's MMAS. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor's response and notify the Contractor, in writing, of the Contracting Officer's final determination concerning—

(i) Remaining material weaknesses;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval if the Contracting Officer determines that one or more material weaknesses remain.

(f) If the Contractor receives the Contracting Officer's final determination of material weaknesses, the Contractor shall, within 45 days of receipt of the final determination, either correct the material weaknesses or submit an acceptable corrective action plan showing milestones and actions to eliminate the material weaknesses.

(g) *Withholding payments.* If the Contracting Officer makes a final determination to disapprove the Contractor's MMAS, and the contract includes the clause at 252.242-7998, Contractor Business Systems, the Contracting Officer will withhold payments in accordance with that clause.

(End of clause)

252.242-7998 Contractor Business Systems. (DEVIATION 2026-O0050)

As prescribed in 242.7001, use the following clause:

CONTRACTOR BUSINESS SYSTEMS (DEVIATION 2026-O0050) (MAR 2026)

(a) This clause only applies to covered contracts that are subject to the Cost Accounting Standards under 41 U.S.C. chapter 15, as implemented in regulations found at 48 CFR 9903.201-1 (see the FAR Appendix).

(b) *Definitions.* As used in this clause—

“Acceptable contractor business systems” means contractor business systems that comply with the terms and conditions of the applicable business system clauses listed in the definition of “contractor business systems” in this clause.

“Contractor business systems” means—

(1) Accounting system, if this contract includes the clause at 252.242-7999, Accounting System Administration;

(2) Earned value management system, if this contract includes the clause at 252.234-7999, Earned Value Management System);

(3) Estimating system, if this contract includes the clause at 252.215-7002, Cost Estimating System Requirements;

(4) Material management and accounting system, if this contract includes the clause at 252.242-7997, Material Management and Accounting System;

(5) Property management system, if this contract includes the clause at 252.245-7003, Contractor Property Management System Administration; and

(6) Purchasing system, if this contract includes the clause at 252.244-7998, Contractor Purchasing System Administration.

“Material weakness” means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—

(1) Probable; or

(2) More than remote but less than likely (section 806 of Pub. L. 116-283).

(c) *General.* The Contractor shall establish and maintain acceptable business systems in accordance with the terms and conditions of this contract.

(d) *Material weaknesses.*

(1) The Contractor shall respond, in writing, within 30 days to an initial determination that there are one or more material weaknesses in one or more of the Contractor’s business systems.

(2) The Contracting Officer will evaluate the Contractor's response and notify the Contractor, in writing, of the final determination as to whether the Contractor’s business system contains material weaknesses. If the Contracting Officer determines that the Contractor’s business system contains material weaknesses, the final determination will include a notice to withhold payments.

(e) *Withholding payments.*

(1) If the Contracting Officer issues the final determination with a notice to withhold payments for material weaknesses in a contractor business system required under this contract, the Contracting Officer will withhold 5 percent of amounts due from progress payments and performance-based payments, and direct the Contractor, in writing, to withhold 5 percent from its billings on interim cost vouchers on cost-reimbursement, labor-hour, and time-and-materials contracts until the Contracting Officer has determined that the Contractor has corrected all material weaknesses as directed by the Contracting Officer’s final determination. The Contractor shall, within 45 days of receipt of the notice, either correct the weaknesses or submit an acceptable corrective action plan showing milestones and actions to eliminate the weaknesses.

(2) If the Contractor submits an acceptable corrective action plan within 45 days of receipt of a notice of the Contracting Officer’s intent to withhold payments, and the Contracting Officer, in consultation with the auditor or functional specialist, determines that the Contractor is effectively implementing such plan, the Contracting Officer will reduce withholding directly related to the material weaknesses covered

under the corrective action plan, to 2 percent from progress payments and performance-based payments, and direct the Contractor, in writing, to reduce the percentage withheld on interim cost vouchers to 2 percent until the Contracting Officer determines the Contractor has corrected all material weaknesses as directed by the Contracting Officer's final determination. However, if at any time, the Contracting Officer determines that the Contractor has failed to follow the accepted corrective action plan, the Contracting Officer will increase withholding from progress payments and performance-based payments, and direct the Contractor, in writing, to increase the percentage withheld on interim cost vouchers to the percentage initially withheld, until the Contracting Officer determines that the Contractor has corrected all material weaknesses as directed by the Contracting Officer's final determination.

(3) *Payment withhold percentage limits.*

(i) The total percentage of payments withheld on amounts due under each progress payment, performance-based payment, or interim cost voucher on this contract shall not exceed—

(A) Five percent for one or more material weaknesses in any single contractor business system; and

(B) Ten percent for material weaknesses in multiple contractor business systems.

(ii) If this contract contains pre-existing withholds, and the application of any subsequent payment withholds will cause withholding under this clause to exceed the payment withhold percentage limits in paragraph (e)(3)(i) of this clause, the Contracting Officer will reduce the payment withhold percentage in the final determination to an amount that will not exceed the payment withhold percentage limits.

(4) For the purpose of this clause, payment means any of the following payments authorized under this contract:

(i) Interim payments under—

(A) Cost-reimbursement contracts;

(B) Incentive type contracts;

(C) Time-and-materials contracts;

(D) Labor-hour contracts.

(ii) Progress payments.

(iii) Performance-based payments.

(5) Payment withholding shall not apply to payments on fixed-price line items where performance is complete and the items were accepted by the Government.

(6) The withholding of any amount or subsequent payment to the Contractor shall not be construed as a waiver of any rights or remedies the Government has under this contract.

(7) Notwithstanding the provisions of any clause in this contract providing for interim, partial, or other payment withholding on any basis, the Contracting Officer may withhold payment in accordance with the provisions of this clause.

(8) The payment withholding authorized in this clause is not subject to the interest-penalty provisions of the Prompt Payment Act.

(f) *Correction of weaknesses.*

(1) The Contractor shall notify the Contracting Officer, in writing, when the Contractor has corrected the business system's weaknesses.

(2) Once the Contractor has notified the Contracting Officer that all weaknesses have been corrected, the Contracting Officer will take one of the following actions:

(i) If the Contracting Officer determines that the Contractor has corrected all material weaknesses as directed by the Contracting Officer's final determination, the Contracting Officer will, as appropriate, discontinue the withholding of progress payments and performance-based payments, and direct the Contractor, in writing, to discontinue the payment withholding from billings on interim cost vouchers under this contract associated with the Contracting Officer's final determination, and authorize the Contractor to bill for any monies previously withheld that are not also being withheld due to other material weaknesses. Any payment withholding under this contract due to other material weaknesses will remain in effect until the Contracting Officer determines that those material weaknesses are corrected.

(ii) If the Contracting Officer determines that the Contractor still has material weaknesses, the Contracting Officer will continue the withholding of progress payments and performance-based payments, and the Contractor shall continue withholding amounts from its billings on interim cost vouchers in accordance with paragraph (e) of this clause, and not bill for any monies previously withheld.

(iii) If the Contracting Officer determines, based on the evidence submitted by the Contractor, that there is a reasonable expectation that the corrective actions have been implemented and are expected to correct the material weaknesses, the Contracting Officer will discontinue withholding payments, release any payments previously withheld directly related to the material weaknesses identified in the Contractor notification, direct the Contractor, in writing, to discontinue the payment withholding from billings on interim cost vouchers associated with the Contracting Officer's final determination, and authorize the Contractor to bill for any monies previously withheld.

(iv) If, within 90 days of receipt of the Contractor notification that the Contractor has corrected the material weaknesses, the Contracting Officer has not made a determination in accordance with paragraph (f)(2)(i), (ii), or (iii) of this clause, the Contracting Officer will reduce withholding directly related to the material weaknesses identified in the Contractor notification by at least 50 percent of the amount being withheld from progress payments and performance-based payments, and direct the Contractor, in writing, to reduce the payment withholding from billings on

interim cost vouchers directly related to the material weaknesses identified in the Contractor notification by a specified percentage that is at least 50 percent, but not authorize the Contractor to bill for any monies previously withheld until the Contracting Officer makes a determination in accordance with paragraph (f)(2)(i), (ii), or (iii) of this clause.

(v) At any time after the Contracting Officer reduces or discontinues the withholding of progress payments and performance-based payments, or directs the Contractor to reduce or discontinue the payment withholding from billings on interim cost vouchers under this contract, if the Contracting Officer determines that the Contractor has failed to correct the material weaknesses identified in the Contractor's notification, the Contracting Officer will reinstate or increase withholding from progress payments and performance-based payments, and direct the Contractor, in writing, to reinstate or increase the percentage withheld on interim cost vouchers to the percentage initially withheld, until the Contracting Officer determines that the Contractor has corrected all material weaknesses as directed by the Contracting Officer's final determination.

(End of clause)

252.242-7999 Accounting System Administration. (DEVIATION 2026-00050)
As prescribed in 242.7503, use the following clause:

ACCOUNTING SYSTEM ADMINISTRATION
(DEVIATION 2026-00050) (MAR 2026)

(a) *Definitions.* As used in this clause—

“Acceptable accounting system” means a system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that—

- (1) Applicable laws and regulations are complied with;
- (2) The accounting system and cost data are reliable;
- (3) Risk of misallocations and mischarges are minimized; and
- (4) Contract allocations and charges are consistent with billing procedures.

“Accounting system” means the Contractor's system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.

“Material weakness” means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—

- (1) Probable; or

(2) More than remote but less than likely (section 806 of Pub. L. 116-283).

(b) *General.* The Contractor shall establish and maintain an acceptable accounting system. Failure to maintain an acceptable accounting system, as defined in this clause, shall result in the withholding of payments if the contract includes the clause at 252.242-7998, Contractor Business Systems, and also may result in disapproval of the system.

(c) *System criteria.* The Contractor's accounting system shall provide for—

- (1) A sound internal control environment, accounting framework, and organizational structure;
- (2) Proper segregation of direct costs from indirect costs;
- (3) Identification and accumulation of direct costs by contract;
- (4) A logical and consistent method for the accumulation and allocation of indirect costs to intermediate and final cost objectives;
- (5) Accumulation of costs under general ledger control;
- (6) Reconciliation of subsidiary cost ledgers and cost objectives to general ledger;
- (7) Approval and documentation of adjusting entries;
- (8) Management reviews or internal audits of the system to ensure compliance with the Contractor's established policies, procedures, and accounting practices;
- (9) A timekeeping system that identifies employees' labor by intermediate or final cost objectives;
- (10) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives;
- (11) Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account;
- (12) Exclusion from costs charged to Government contracts of amounts which are not allowable in terms of Federal Acquisition Regulation (FAR) part 31, Contract Cost Principles and Procedures, and other contract provisions;
- (13) Identification of costs by contract line item and by units (as if each unit or line item were a separate contract), if required by the contract;
- (14) Segregation of preproduction costs from production costs, as applicable;
- (15) Cost accounting information, as required—
 - (i) By contract clauses concerning limitation of cost (FAR 52.232-20), limitation of funds (FAR 52.232-22), or allowable cost and payment (FAR 52.216-7); and

(ii) To readily calculate indirect cost rates from the books of accounts;

(16) Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms;

(17) Adequate, reliable data for use in pricing follow-on acquisitions; and

(18) Accounting practices in accordance with standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, Generally Accepted Accounting Principles.

(d) *Material weaknesses.*

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any material weaknesses. The initial determination will describe the underlying deficiency in sufficient detail to allow the Contractor to understand the weakness or deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies material weaknesses in the Contractor's accounting system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor's response and notify the Contractor, in writing, of the Contracting Officer's final determination concerning—

(i) Remaining material weaknesses;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more material weaknesses remain.

(e) If the Contractor receives the Contracting Officer's final determination of material weaknesses, the Contractor shall, within 45 days of receipt of the final determination, either correct the material weaknesses or submit an acceptable corrective action plan showing milestones and actions to eliminate the material weaknesses.

(f) *Withholding payments.* If the Contracting Officer makes a final determination to disapprove the Contractor's accounting system, and the contract includes the clause at 252.242-7998, Contractor Business Systems, the Contracting Officer will withhold payments in accordance with that clause.

(End of clause)

PGI 242—CONTRACT ADMINISTRATION AND AUDIT SERVICES

PGI 242.001-70 Interagency agreements.

(d)(2) Upon receipt of a request for contract administration services, the CCP must—

(i) Determine whether the request is from a friendly foreign government or an international agency in which the United States is a participant;

(ii) Determine whether the services are consistent with the DoD mutual security program policies. The Assistant Secretary of Defense (International Security Affairs) is the source of information for questions about the eligibility of foreign governments to receive services);

(iii) Ensure that the reimbursement arrangements are consistent with DFARS 242.001-70;

(iv) Coordinate with appropriate contract administration offices to determine whether DoD can provide the services;

(v) Notify the requestor that the request is accepted, or provide reasons why it cannot be accepted;

(vi) Distribute the acquisition documents and related materials to contract administration offices; and

(vii) Receive statements of costs incurred by contract administration offices for reimbursable services and forward them for billing to the Security Assistance Accounting Center.

PGI 242.2 CONTRACT ADMINISTRATION SERVICES

PGI 242.202-70 Assignment of contract administration.

(b)(6) DoD activities must retain contract administration functions for contracts performed at a base, post, camp, station, or other military installation. These contracts are normally the responsibility of the installation or tenant commander. However, DCMA must perform contract administration services on a military installation at the request of the military department if there is a prior agreement.

PGI 242.202-71 Secondary delegations of contract administration.

When requesting support on a subcontract that includes foreign military sale (FMS) requirements, the contract administration office must—

(1) Mark “FMS Requirement” on the face of the documents; and

(2) For each FMS case involved, provide the FMS case identifier, associated item quantities, DoD prime contract number, and prime contract line/subline item number.

PGI 242.3—CONTRACT ADMINISTRATION OFFICE FUNCTIONS

PGI 242.302-70 Contract administration functions.

(a)(4) For contracts assigned to DCMA for contract administration, designate as the payment office—

(i) The cognizant Defense Finance and Accounting Service (DFAS) payment office as specified in the Federal Directory of Contract Administration Services Components, available at <https://piee.eb.mil/pcm/xhtml/unauth/index.xhtml>, for contracts funded with DoD funds;

(ii) The department or agency payment office, if authorized by defense financial management regulations or if the contract is funded with non-DoD funds; or

(iii) Multiple payment offices under paragraphs (a)(13)(B)(1)(i) and (ii) of this section, if the contract is funded with both DoD and non-DoD funds.

(2) For contracts not assigned to DCMA, select a payment office or offices under department/agency procedures.

(3) When the Governmentwide commercial purchase card is the method of payment for a contract or order, enter “CRCARD” in the payment office code block.

(6) Assignment of a Government flight representative (GFR) may require execution of a secondary contract administration delegation, which is used to transfer contract administration responsibilities (see FAR 42.302(a)) from one contract administration office to another office or command. Secondary contract administration delegations are appropriate when, for example, contract work is performed at locations geographically separated from the contract administration office. In lieu of transferring contract administration responsibility through a secondary contract administration delegation, a GFR from one unit may be delegated GFR responsibility from an outside contract administration organization that has retained contract administration responsibility. This is accomplished through the use of a formal letter of agreement functionally assigning the GFR to the outside contract administration organization for the limited purpose of performing contract administration under FAR 42.302(a)(56).

(10) Use the following when use of Synchronized Predeployment and Operational Tracker (SPOT) is a requirement of the contract;

(i) For suggested criteria to assess a contractor’s implementation of SPOT, see SPOT Compliance Checklist at <https://www.acq.osd.mil/asds/log/cso/ocs/spot.html>.

(ii) For visibility into certain discrepant records in SPOT, use the following audit compliance reports (ACRs) available via the Total Operational Picture Support System (TOPSS):

(A) Deployment Status Report (ACR–01). Lists all deployment requests that were submitted less than 10 days prior to the estimated deployment start date.

(B) In-Theater Arrival Date (ITAD) Report (ACR–02). Lists all records where the ITAD was entered more than one day after the actual ITAD.

(C) Primary Duty Station Report (ACR–03). Lists all deployments where the primary duty station arrival date was entered more than three days after the actual duty station arrival date.

(D) Closeout Deployment Report (ACR–05). Lists all deployments where the actual deployment end date was entered more than three days after the actual deployment end date.

(E) Open/Blank In-Theater Arrival Date (ITAD) Report (ACR– 06). Lists where the ITAD was not entered into SPOT within 15 days after the estimated deployment start date.

(iii) Obtain a TOPSS account by following the TOPPS PKI Certificate Registration instructions at <https://www.acq.osd.mil/asds/log/cso/ocs/spot.html>.

(iv) Take immediate action to notify contractors of non-compliance with SPOT (e.g., issue one of the delinquency notices identified at FAR 49.607).

(v) Document performance deficiencies related to SPOT non-compliance that will be relevant to past performance evaluations for future contract opportunities in accordance with FAR subpart 42.11.

(13)(i) Use these guidelines for—

(A) Monitoring the policies, procedures, and practices used by contractors to control direct and indirect costs related to Government business; and

(B) Eliminating duplication in Government monitoring of contractors' costs.

(ii) Effective management of contract costs is essential to the efficient and economical performance of Government contracts. Contractors are responsible for managing and controlling their direct and indirect costs; however, DoD must systematically monitor the management of contractors' costs to ensure these responsibilities are met.

(iii) Departments and agencies should conduct a formal program of Government monitoring of contractor policies, procedures, and practices for controlling costs (cost monitoring) at contractor locations where—

(A) Sales to the Government, as determined by the contract administration offices, during the contractor's next fiscal year are expected to exceed \$200 million in contracts—

(1) Based on costs incurred; or

(2) Negotiated based on projected costs.

(B) The contract administration office determines the cost benefits derived from monitoring the individual contractors with less than \$200 million in other than firm fixed-price and fixed-price with economic price adjustment contracts is warranted; or

(C) Significant Government business exists and is specifically directed by the head of the contracting activity.

(iv) Departments and agencies are responsible for designating the cost monitoring sites and discontinuing them when the criteria are no longer met.

(v) Contract administration offices (CAOs), which are designated as cost monitoring sites, are responsible for—

(A) Assigning a cost monitoring specialist (CMS) to conduct the program. The CMS may be the administrative contracting officer (ACO) or any other CAO employee whose normal function relates to evaluation of contractor performance.

(B) Reviewing and approving the cost monitoring plan for the next fiscal year and the cost monitoring report from the concluding fiscal year.

(vi) The ACO is responsible for—

(A) In the absence of a CMS, ensuring completion of the CMS duties referenced in paragraph (iii) of this section;

(B) Considering review results in direct and indirect rate negotiations and contract negotiations;

(C) Ensuring the contractor implements corrective action recommended in the cost monitoring review reports; and

(D) Resolving disputes with the contractor regarding cost monitoring review findings, conclusions, or recommendations.

(vii) The CMS is responsible for managing the cost monitoring effort within the CAO and coordinating planned effort with the contract auditor. This includes—

(A) Preparing and maintaining an annual written cost monitoring plan for reviewing contractor operations (see paragraph (d) of this section);

(B) Maintaining an inventory of planned and completed CAO, Defense Contract Audit Agency (DCAA), and other Government reviews and audits in order to mitigate duplication of efforts;

(C) Monitoring contractor direct and indirect rates and factors during the year, making comparisons to historical actual costs and to contractor proposed or negotiated forward pricing rates and factors, and providing rate recommendations based on their analysis;

(D) Performing approved functional reviews of contractor activities, to include assisting Government personnel in obtaining access to pertinent contractor policies, procedures, and related data;

(E) Advising the ACO and CAO management of corrective action recommended to improve inefficient or uneconomical contractor conditions, policies, or practices, to include preparing, for the ACO's consideration when appropriate, a Notice of Intent to Disallow or Not Recognize Costs;

(F) Continuously tracking the status of recommendations made to the contractor concerning cost performance stemming from all Government reports;

(G) Keeping the contracting officer, program manager, contract auditor, and other responsible officials informed of issues affecting economical contract performance;

(H) Maintaining current organizational charts of the operations identifiable to the contractor's functional centers of its cost control functions; and

(I) Preparing a final cost monitoring report summarizing all of the cost monitoring functions performed during the Government fiscal year.

(viii) The contract auditor is responsible for assisting the CMS by performing the portion of cost monitoring plan and related analyses that requires access to the contractor's financial and accounting records supporting the cost or pricing data. (This does not preclude the program manager, contracting officer, ACO, CMS, or other representatives from reviewing contractor records and data necessary to the performance of their duties.)

(ix) Audit organizations, program offices, contracting activities, and any other DoD organizations with responsibility for reviewing contractor operations for the purpose of monitoring contractor policies, procedures, and practices to control costs, must submit to the CMS—

(A) An annual schedule of planned and tentative visits, oversight reviews, and audits to be performed at cost monitoring locations; and

(B) Revisions to scheduled visits or audit plans, within 30 days of issuance.

(x) Establish an annual cost monitoring plan for monitoring, reviewing, negotiating, and approving contractor's direct and indirect rates, business systems, corrective actions to deficient processes, and cost controls by coordinating the capabilities of the CAO, DCAA, and other Government representatives in an effort to reduce unreasonable, erroneous, or improper costs to Government contracts.

(A) The plan should—

(1) Provide coverage for each significant activity of the contractor over a period of five to ten years;

(2) Provide coverage for contractor future years dependent on the period of forward pricing years the contractor proposes and the expected length of executed Government programs;

(3) Be updated to reflect changed conditions as the year progresses; and

(4) Be consistent with the approved schedule, and any deviations should be explained in the final cost monitoring report.

(B) The plan must identify the organizations having the primary responsibility for performing the reviews.

(C) The plan should include reviews required by the ACO and DFARS. Reviews will be performed by the assigned organization during the coordination phase of the cost monitoring plan, except when DFARS makes a specific organizational assignment. For example, 244.301 makes the ACO responsible for leading contractor purchasing system reviews and 215.305-70(c)(3) makes the DCAA auditor responsible for leading estimating system reviews on behalf of the ACO.

(xi) The CAO selects the activities for the cost monitoring plan. DCAA will complete its annual audit plan independently and communicate the approved audit plan to ensure the most effective monitoring approach. To ensure all Government interests are considered in the selection, the CMS should invite CAO, DCAA, and other interested Government representatives to a meeting before the beginning of each Government fiscal year to identify and prioritize the areas to be reviewed during the coming year, to ensure a fully communicated Government cost monitoring plan.

(A) The selection team should consider the following data and assign primary responsibility in the selection process—

(1) Contractor forecasts for the coming years supporting direct and indirect costs by functional centers of its cost control system and the results of the latest survey performed of such systems;

(2) Organizational charts for the contractor's entire operation;

(3) Outline of the contractor's accounting system showing the flow of costs by function;

(4) Determination of Government participation in the dollars attributable to the operations and cost accounts under consideration;

(5) List of recent reviews and audits performed by CAO, DCAA, and other Government representatives; list should show outstanding weaknesses and deficiencies in the contractor's operations that will be considered for follow-up reviews or audits;

(6) Evidence of contractor under or over staffing;

(7) Significant departures from established contractor productivity standards;

(8) Major financial variances from forecasts in prior years;

(9) Evidences of idle or under-used capacity;

(10) Any visits or audit plans scheduled by other Government organizations and identified to the CMS; and

(11) Any other significant information or business changes which could have an adverse effect or cause a significant change to on the contractor's management of contract costs.

(B) The CMS should prioritize the plan to review contractor activity by considering—

- (1) The extent of competition in awarded contracts;
- (2) The contractor's operating methods;
- (3) The nature of the work;
- (4) Acquisition cycle stage;
- (5) Business and industry practices;
- (6) Types of contracts involved;
- (7) Degree of technical and financial risk;
- (8) Previously reported findings and deficiencies;
- (9) Ratio of Government/commercial work;
- (10) Significant changes in the level (dollars) of the contractor's work and backlog; and
- (11) The extent performance efficiencies have been previously demonstrated.

(C) Submit and approve the cost monitoring plan as follows:

(1) The local DCAA office will provide an approved annual audit plan to the ACO within 30 days after the first day of each fiscal year.

(2) The CMS will submit an adequate cost monitoring plan to the head of the local CAO within 45 days after the first day of each fiscal year.

(3) The head of the local CAO, or designee, will approve the annual cost monitoring plan within 15 days of an adequate submission. The head of the local CAO will ensure that adequate coordination of the cost monitoring plan was performed with the DCAA and other responsible Government representatives.

(D) Perform functional reviews and audits as scheduled in accordance with the cost monitoring plan.

(1) Hold interim meetings with the contractor as necessary to clarify information. Hold an exit conference at the conclusion of reviews.

(2) Prepare reports at the conclusion of reviews. The ACO will determine whether a Government review or audit report will be provided to a contractor based on specific regulatory requirements or the impact to pending negotiations or litigation.

(3) Prepare periodic reports on the results of the CMS analysis and monitoring of the contractors rates and factors, which should address the causes for significant deviations from historical and negotiated forward pricing rates and factors.

(E) Prepare an annual cost monitoring report which is a culmination of the Government activities performed during the fiscal year in an effort to conduct and maintain a formal monitoring program of contractor policies, procedures, and practices for controlling costs charged to Government contracts. The report should—

(1) Provide a brief introduction of the contractor and the products it provides to the Government;

(2) Summarize each review and audit completed during the reporting period along with any deviations from the cost monitoring plan;

(3) Highlight open deficiencies, corrected deficiencies, and any newly reported deficiencies; and

(4) Include the current status of all final, billing, and forward pricing rates.

(5) Incorporate the final DCAA audit reports by summary and reference.

(F) (1) The head of the local CAO, or designee, will approve the annual cost monitoring report within 60 days of the end of the Government fiscal year.

(2) Provide a copy of the approved report to the head of the local DCAA office within 15 days of approval.

PGI 242.5—INDIRECT COST RATES

PGI 242.505 Final indirect cost rates.

PGI 242.505-1 Contracting officer determination procedure.

(a) *Applicability and responsibility.*

(1) When negotiations are conducted on a coordinated basis, individual administrative contracting officers are responsible for coordinating with the corporate administrative contracting officer to ensure consistency of cost determinations.

PGI 242.8—PRODUCTION SURVEILLANCE AND REPORTING

PGI 242.804 Assignment of criticality designator.

PGI 242.804-70 Procedures

(a) Contracting officers must—

(1) Assign criticality designator A to items with a priority 01, 02, 03, or 06 (if emergency supply of clothing) under DoD Manual 4140.01, Volume 5, DoD Supply Chain Materiel Management Procedures: Delivery of Materiel; and

(2) Ordinarily assign criticality designator C to unilateral purchase orders.

(b) Only the contracting officer may change the assigned designator.

PGI 242.804-71 Reporting requirements.

(a) See DoDI 5000.85, Major Capability Acquisition, for reporting requirements for defense technology projects and acquisition programs.

(b)(i) Within four working days after receipt of the contractor's report, the CAO must provide the report and any required comments to the contracting officer and, unless otherwise specified in the contract, the inventory control manager.

(ii) If the contractor's report indicates that the contract is on schedule and the CAO agrees, the CAO does not need to add further comments. In all other cases, the CAO must add comments and recommend a course of action.

PGI 242.9—NOVATION AND CHANGE-OF-NAME AGREEMENTS

PGI 242.902-70 Processing agreements.

(a) For contracts awarded by the military departments, provide notices to the following addressees instead of individual contracting or contract administration offices:

Army usarmy.pentagon.hqda-asa-alt.list.saal-ps-staff@army.mil

Navy usn.pentagon.asstsecnavrdadc.mbx.pabt@us.navy.mil

Air Force AFMC.PK.Workflow-02@us.af.mil

National Aeronautics and Space Administration
National Aeronautics and Space Administration
ATTN: Office of Procurement, Program Operations Division
300 E Street, SW
Washington, DC 20546-0001

(b) Lists of affected contracts accompanying a notice of successor in interest should include the information at FAR 42.903(e)(2).

(c) Lists of affected contracts accompanying a notice of a name change should include the information at FAR 42.904(a)(3).

(d) On notices sent to the addressees in paragraph (1) of this section, include a consolidated list for all subordinate contracting offices of the addressee.

(e) Before making any substantial alterations or additions to the novation agreement format at FAR 42.903(i), coordinate with the addressees in paragraph (1) of this section that have contracts with the contractor. Resolve any objections before executing the agreement.

(f) If the National Aeronautics and Space Administration (NASA) wants a separate agreement with the contractor, continue to process the agreement only for DoD.

(g) In addition to the requirements of FAR 42.902(g) and PGI 204.3, make distribution to—

(1) The physical address or a copy to the email addresses in paragraph (1) of this section; and

(2) The appropriate Military Surface Deployment and Distribution Command area command for agreements affecting contracts and basic agreements for storage and related services for personal property of military and civilian personnel — two copies:

Commander
Eastern Area
Military Surface Deployment
and Distribution Command
ATTN: MTE-LO
Bayonne, NJ 07002

Commander
Western Area
Military Surface Deployment
and Distribution Command
Oakland Army Base
ATTN: MTW-LO
Oakland, CA 94626

(h) In addition to the distribution requirements of FAR 42.902(h)(4) and PGI 204.201–

(1) Send two copies to the physical address or a copy to the email addresses in paragraph (1) of this section. The list of contracts may be confined to those issued by that department.

(2) Do not send copies to NASA or the commands in paragraph (7)(ii) of this section. They will issue their own modifications.

(i) The contracting officer responsible for execution of a change-of-name agreement (see FAR subpart 42.901) must submit the agreement to DLIS-SBB. If there are no current contracts, each contracting and contract administration office receiving notification of changes from the commercial entity must forward a copy of the change notice annotated with the CAGE code to DLIS-SBB unless the change notice indicates that DLIS-SBB already has been notified.

PGI 242.70— CONTRACTOR BUSINESS SYSTEMS

PGI 242.7000 Contractor business system deficiencies.

(b) *Determination to withhold payments.* The following are sample formats for written notifications of contracting officer determinations to initiate payment withholding, reduce payment withholding, and discontinue payment withholding in accordance with the clause at DFARS 252.242-7998, Contractor Business Systems:

(1) Use this sample format for written final determinations to implement payment withholding:

Payment Withholding

(i) The purpose of this final determination is to disapprove your *[identify the contractor business system(s)]* and implement payment withholding per the terms of the clause at DFARS 252.242-7998, Contractor Business Systems.

(ii) It is my final determination that XXX System(s) contains the following material weaknesses:

--[list all material weaknesses]

(iii) Effective immediately, five percent (or a lesser percentage if five percent will exceed the withhold limitations in the clause at DFARS 252.242-7998) of each request for payment under the contracts in Attachment A will be withheld as described below for material weaknesses in XXX system. Upon receipt of an acceptable corrective action plan

and my determination that this corrective action plan is being effectively implemented, I will issue a notification with respect to reducing the percentage being withheld to two percent until I determine that all material weaknesses, as identified in this final determination, have been corrected. Failure to follow the accepted corrective action plan will result in an increase in the percentage withheld against each payment under this contract to five percent (or a lesser percentage if five percent will exceed the withhold limitations in DFARS 252.242-7998). *[Repeat this paragraph, as necessary, if multiple withholds are being applied to multiple systems in accordance with 252.242-7998(d)]*

(iv) For payments under cost, labor-hour, or time-and-material contracts: The Contractor must apply a five percent (or a lesser percentage if five percent will exceed the withhold limitations in DFARS 252.242-7998) withhold to the amount being billed and prepare a cost voucher in Wide Area WorkFlow (WAWF) for the net amount due. The Contractor must show the amount withheld on the current billing, as well as the cumulative amount withheld to date on this contract in accordance with DFARS clause 252.242-7998, in the Comments block of the Miscellaneous Info Tab in WAWF.

(v) For progress payments: The Contractor must prepare the request in WAWF without applying any withhold percentage. The Contracting Officer will reduce the approved amount by five percent (or a lesser percentage if five percent will exceed the withhold limitations in DFARS 252.242-7998) and record the amount being withheld on the progress payment request, as well the cumulative amount withheld on this contract in accordance with DFARS clause 252.242-7998, in the Comments block of the Miscellaneous Info Tab in WAWF.

(vi) For performance-based payments: The Contractor must prepare the request in WAWF without applying any withhold percentage to the performance based payment event schedule amounts. The Contracting Officer will reduce the amount approved by five percent (or a lesser percentage if five percent will exceed the withhold limitations in DFARS 252.242-7998) and record the amount being withheld on the performance based payment as well as the cumulative amount withheld on this contract in accordance with the DFARS clause 252.242-7998 in the Comments block of the of the Miscellaneous Info Tab in WAWF.

(2) Use this sample format for determinations to reduce payment withholding:

Reduction of Temporary Payment Withholding

(i) The purpose of this determination is to reduce the payment withholding percentage per the terms of the clause at DFARS 252.242-7998, Contractor Business Systems, as a result of receiving an acceptable corrective action plan from the contractor, dated YYYY/MM/DD, for resolving deficiencies in its XXX system(s) as identified in the Contracting Officer's determination, dated YYYY/MM/DD. This reduction is prospective and previous amounts withheld will not be reduced or released at this time.

(ii) Effective immediately, two percent of each request for payment under this contract will be withheld as described below. The two percent being withheld will remain in effect until the Contracting Officer determines that the Contractor has corrected all material weaknesses as directed by the Contracting Officer's determination. Failure to follow the accepted corrective action plan will result in an increase in the percentage withheld against each payment under this contract to five percent (or a lesser percentage if five percent will exceed the withhold limitations in DFARS 252.242-7998).

(iii) For payments under cost, labor-hour, or time-and-material contracts: The

Contractor must apply a two percent withhold to the amount being billed and prepare a cost voucher in Wide Area WorkFlow (WAWF) for the net amount due. The Contractor must show the amount withheld on the current billing, as well as the cumulative amount withheld to date on this contract in accordance with DFARS clause 252.242-7998, in the Comments block of the Miscellaneous Info Tab in WAWF.

(iv) For progress payments: The Contractor must prepare the request in WAWF without applying any withhold percentage. The Contracting Officer will reduce the approved amount by two percent and record the amount being withheld on the progress payment request, as well the cumulative amount withheld on this contract in accordance with DFARS clause 252.242-7998, in the Comments block of the Miscellaneous Info Tab in WAWF.

(v) For performance-based payments: The Contractor must prepare the request in WAWF without applying any withhold percentage to the performance-based payment event schedule amounts. The Contracting Officer will reduce the amount approved by two percent and record the amount being withheld on the performance-based payment as well as the cumulative amount withheld on this contract in accordance with the DFARS clause 252.242-7998 in the Comments block of the of the Miscellaneous Info Tab in WAWF.

(3) Use the sample format below if payment withholding is discontinued pending receipt of auditor or functional specialist verification and based on evidence that the contractor has corrected all material weaknesses, in accordance with the clause at DFARS 252.242-7998, Contractor Business Systems:

Discontinuation of Payment Withholding Pending Verification

(i) The purpose of this determination is to approve your *[identify system(s)]* pending verification, discontinue the payment withhold as identified in the Contracting Officer's determination dated YYYY/MM/DD, and release previous amounts withheld on the contracts in Attachment A, in accordance with DFARS clause 252.242-7998, Contractor Business Systems.

(ii) The discontinuation of the payment withhold is made pending receipt of verification and based on my review of the evidence submitted by the Contractor that all the Contractor's system(s) material weaknesses identified in the Contracting Officer's determination dated YYYY/MM/DD have been corrected.

(iii) The Contractor is authorized to submit a bill in the amount of \$XXXXXXXXX. The billed amount should be submitted on the same type of invoice as the withhold was originally taken, as appropriate.

(4) Use the sample format below if payment withholding is discontinued after auditor or functional specialist verification that the contractor has corrected all material weaknesses, in accordance with the clause at DFARS 252.242-7998, Contractor Business Systems:

Discontinuation of Payment Withholding

(i) The purpose of this determination is to approve your *[identify system(s)]*, discontinue the payment withhold as identified in the Contracting Officer's determination dated YYYY/MM/DD, and release previous amounts withheld on the contracts in Attachment A, in accordance with DFARS clause 252.242-7998, Contractor Business Systems.

(ii) The discontinuation of the payment withhold is made based on verification

that all the Contractor's system(s) material weaknesses identified in the Contracting Officer's final determination dated YYYY/MM/DD have been corrected.

(iii) The Contractor is authorized to submit a bill in the amount of \$XXXXXXXX. The billed amount should be submitted on the same type of invoice as the withhold was originally taken, as appropriate.

PGI 242.71—Voluntary refunds

PGI 242.7100 General.

(1) A voluntary refund may be solicited (requested by the Government) or unsolicited.

(i) Generally, request voluntary refunds only after determining that no contractual remedy is readily available to recover the amount sought.

(ii) Acceptance of unsolicited refunds does not prejudice remedies otherwise available to the Government.

(2) Before soliciting a voluntary refund or accepting an unsolicited one, the contracting officer should have legal counsel review the contract and related data to—

(i) Confirm that there are no readily available contractual remedies; and

(ii) Advise whether the proposed action would jeopardize or impair the Government's rights.

(3) Request voluntary refunds only when—

(i) The contracting officer concludes that the contractor overcharged under a contract, or inadequately compensated the Government for the use of Government-owned property, or inadequately compensated the Government in the disposition of contractor inventory; and

(ii) Retention of the amount in question by the contractor or subcontractor would be contrary to good conscience and equity.

(4) Do not solicit voluntary refunds without approval of the head of the contracting activity, or as provided in department/agency regulations.

(5) Voluntary refunds may be requested during or after contract performance.

(6) A contract modification, rather than a check, is the preferred means of effecting a solicited or unsolicited refund transacted before final payment.

(i) For modifications, adjust the price for the refund and credit the refund to the applicable appropriation cited in the contract.

(ii) For checks—

(A) Advise the contractor to—

(1) Make the check payable to the agency that awarded the contract;

(2) Forward the check to the contracting officer or, when the contract is assigned to another office for administration, to that office; and

(3) Include a letter with the check—

(i) Identifying it as a voluntary refund;

(ii) Giving the contract number involved; and

(iii) Where possible, giving the appropriation and account number to be credited; and

(B) Forward the check to the office responsible for control of funds.

PGI 242.72—CONTRACTOR MATERIAL MANAGEMENT AND ACCOUNTING SYSTEM

PGI 242.7203 Review procedures.

(c) *Disposition of findings.*

(2) *Initial determination.*

(ii)(A) Within 30 days of receiving the report, if the contracting officer makes a determination that there is a material weakness, the contracting officer should provide an initial determination of material weaknesses and a copy of the report to the contractor and require the contractor to submit a written response.

(C) *Evaluation of contractor's response.* Within 30 days of receiving the contractor's response, the contracting officer, in consultation with the auditor or cognizant functional specialist, should evaluate the contractor's response and make a final determination.

(3) *Final determination.*

(ii)(A) *Monitoring contractor's corrective action.* The contracting officer, with the assistance of the auditor, must monitor the contractor's progress in correcting material weaknesses and deficiencies. If the contractor fails to make adequate progress, the contracting officer must take whatever action is necessary to ensure that the contractor corrects the weaknesses and deficiencies. Actions the contracting officer may take include: disapproving the contractor's MMAS; bringing the issue to the attention of higher level management; recommending non-award of potential contracts, as applicable; and for material weaknesses, implementing or increasing the withholding in accordance with 252.242-7998, Contractor Business Systems.

(B) *Correction of material weaknesses.*

(1) When the contractor notifies the contracting officer that the contractor has corrected the material weaknesses, the contracting officer must request that the auditor review the correction to determine if the weaknesses and deficiencies have been resolved.

(2) The contracting officer must determine if the contractor has corrected the weaknesses and deficiencies.

(3) If the contracting officer determines the contractor has corrected the weaknesses and deficiencies, send the contracting officer's notification to the auditor; payment office; appropriate action officers responsible for reporting past performance at the requiring activities; and each contracting and contract administration office having substantial business with the contractor as applicable.

PGI 242.73--CONTRACTOR INSURANCE/PENSION REVIEW

PGI 242.7303 Responsibilities.

(1) The ACO is responsible for—

(i) Determining the need for a CIPR in accordance with the procedures at DFARS 242.7302;

(ii) Requesting and scheduling the reviews with the appropriate DCMA activity;

(iii) Notifying the contractor of the proposed date and purpose of the review, and obtaining any preliminary data needed by the DCMA insurance/pension specialist or the DCAA auditor;

(iv) Reviewing the CIPR report, advising the contractor of the recommendations contained within the report, considering contractor comments, and rendering a decision based on those recommendations;

(v) Providing other interested contracting officers copies of documents related to the CIPR;

(vi) Ensuring adequate follow-up on all CIPR recommendations; and

(vii) Performing contract administration responsibilities related to Cost Accounting Standards administration as described in FAR Subparts 30.2 and 30.6.

(2) The DCMA insurance/pension specialist is responsible for—

(i) Issuing a technical report on the contractor's insurance/pension plans for incorporation into the final CIPR report based on an analysis of the contractor's pension plans, insurance programs, and other related data;

(ii) Leading the team that conducts the review. Another individual may serve as the team leader when both the insurance/pension specialist and that individual agree. The team leader is responsible for—

(A) Maintaining complete documentation for CIPR reports;

(B) To the extent possible, resolving discrepancies between audit reports and CIPR draft reports prior to releasing the final CIPR report;

(C) Preparing and distributing the final CIPR report;

(D) Providing the final audit report and/or the insurance/pension specialist's report as an attachment to the CIPR report; and

(E) Preparing a draft letter for the administrative contracting officer's use in notifying the contractor of CIPR results; and

(iii) When requested, advising administrative contracting officers and other Government representatives concerning contractor insurance/pension matters.

(3) The DCAA auditor is responsible for—

(i) Participating as a member of the CIPR team or serving as the team leader (see paragraph (2)(ii) of this section);

(ii) Issuing an audit report for incorporation into the final CIPR report based on an analysis of the contractor's books, accounting records, and other related data; and

(iii) Performing contract audit responsibilities related to Cost Accounting Standards administration as described in FAR Subparts 30.2 and 30.6.

PGI 242.74—TECHNICAL REPRESENTATION AT CONTRACTOR FACILITIES

PGI 242.7401 Procedures.

(1) When the program, project, or system manager determines that a technical representative is required, the manager must issue a letter of intent to the contract administration office commander listing the assignment location, starting and ending assignment dates, technical duties assigned, delegated authority, and support required from the contract administration office. Any issues regarding the assignment of a technical representative should be resolved promptly. However, final decision on the assignment remains with the program manager. Issues regarding the assignment of technical duties that cannot be resolved between the program office and the on-site DoD contract administration office will be elevated.

(2) The program, project, or system manager will furnish the designated technical representative a letter of assignment of delegated technical duties, with copies to the contract administration office, the contracting officer, and the contractor, at least 30 days before the assignment date (or termination date). Any changes to the requirements of the assignment letter will be made by a new letter of intent and processed in accordance with paragraph (1) of this section.

(3) The contract administration office normally provides the technical representative with office space, equipment, supplies, and part-time clerical support. The program, project, or system manager provides supervision, technical direction, administrative services (e.g., pay, travel, maintenance of personnel records), and, when required, full-time clerical support.

(4) The program manager or designee and the contract administration office, at the local level, must negotiate a memorandum of agreement (MOA) delineating their functional administrative interrelationships, with annual updates as necessary. The agreements may be included in an existing MOA, if one exists, or as a separate MOA.

(5) The technical representative must keep the contract administration office commander fully informed of matters discussed with the contractor. The contract administration office must also keep the technical representative fully informed of contractor discussions that relate to technical matters within the purview of the technical representative's assigned duties.

PGI 242.75—CONTRACTOR ACCOUNTING SYSTEMS AND RELATED CONTROLS

PGI 242.7502 Policy.

(d) Disposition of findings.

(3) Final determination.

(ii)(A) Monitoring contractor's corrective action. In collaboration with the auditor, monitor the contractor's progress in correcting material weaknesses and deficiencies. If the contractor fails to make adequate progress, take whatever action is necessary to ensure that the contractor corrects the material weaknesses and deficiencies. Potential actions include: disapproving the system; bringing the issue to the attention of higher level management, as applicable; and for material weaknesses, implementing or increasing the withholding in accordance with 252.242-7998, Contractor Business Systems.

(B) Correction of material weaknesses.

(1) When the contractor notifies the contracting officer that the contractor has corrected the material weaknesses; request that the auditor review the correction to determine if the weaknesses and deficiencies have been resolved.

(2) Determine if the contractor has corrected the material weaknesses.

(3) If the contracting officer determines the contractor has corrected the material weaknesses, send the contracting officer's notification to the auditor; payment office; appropriate action officers responsible for reporting past performance at the requiring activities; and each contracting and contract administration office having substantial business with the contractor as applicable.

(g) Mitigating the risk of material weaknesses and system deficiencies on specific proposals.

(2) When identified deficiencies impact negotiations of a proposal, consider the following taking alternative actions, including—

(i) Allowing the contractor additional time to correct the deficiency and submit a corrected proposal;

(ii) Considering another type of contract;

(iii) Using additional cost analysis techniques to determine the reasonableness of the cost elements affected by the deficiency;

(iv) Reducing the negotiation objective for profit or fee; or

(v) Adding a contract (reopener) clause that provides for adjustment of the contract amount after award.

(3) When incorporating a contract reopener clause, negotiate price adjustments required by the clause. A contract reopener clause based upon a deficiency should—

(i) Clearly identify the amounts and items that are in question at the time of negotiation;

(ii) Indicate a specific time or subsequent event by which the contractor will submit a supplemental proposal, including certified cost or pricing data, identifying the cost impact adjustment necessitated by the deficient accounting system;

(iii) Provide for the contracting officer to adjust the contract price unilaterally if the contractor fails to submit the supplemental proposal; and

(iv) Provide that failure of the Government and the contractor to agree to the price adjustment must be a dispute under the Disputes clause.

PGI 242.76—POSTAWARD ORIENTATION

PGI 242.7602 Selecting contracts for postaward orientation.

When deciding whether postaward orientation is necessary and, if so, what form it must take, consider the—

(a) Nature and extent of the preaward survey and any other prior discussions with the contractor;

(b) Type, value, and complexity of the contract;

(c) Complexity and acquisition history of the product or service;

(d) Requirements for spare parts and related equipment;

(e) Urgency of the delivery schedule and relationship of the product or service to critical programs;

(f) Length of the planned production cycle;

(g) Extent of subcontracting;

(h) Contractor's performance history and experience with the product or service;

(i) Contractor's status, if any, as a small business, small disadvantaged, women-owned, veteran-owned, HUBZone, or service-disabled veteran-owned small business concern;

(j) Contractor's performance history with small, small disadvantaged, women-owned, veteran-owned, HUBZone, and service-disabled veteran-owned small business subcontracting programs;

(k) Safety precautions required for hazardous materials or operations; and

(l) Complex financing arrangements, such as progress payments, advance payments, or guaranteed loans.

PGI 242-7603-1 Postaward conference arrangements.

(a) The contracting officer is responsible for—

(1) Establishing the time and place of the conference;

- (2) Preparing the agenda, when necessary;
- (3) Notifying appropriate Government representatives (e.g., contracting/contract administration office) and the contractor;
- (4) Designating or acting as the chairperson;
- (5) Conducting a preliminary meeting of Government personnel; and
- (6) Preparing a summary report of the conference.

(b) When the contracting office initiates a conference, the arrangements may be made by that office or, at its request, by the contract administration office.

PGI 242.7603-2 Postaward conference procedure.

(c)(1) The chairperson of the conference conducts the meeting. Unless a contract change is contemplated, emphasize that it is not the purpose of the meeting to change the contract.

(2) The contracting officer may make commitments or give directions within the scope of the contracting officer's authority and must put in writing and sign any commitment or direction, whether or not it changes the contract.

(3) Any change to the contract that results from the postaward conference must be made only by a contract modification referencing the applicable terms of the contract. Participants without authority to bind the Government must not take action that in any way alters the contract.

(4) The chairperson develops a postaward conference report that reflects all the information and guidance provided to the contractor during the conference (see PGI 242.7603-3).

PGI 242.7603-3 Postaward conference report.

- (a) The chairperson prepares and signs a report of the postaward conference.
- (b) Include all items discussed, including areas requiring resolution, controversial matters, the names of the participants assigned responsibility for further actions, and the due dates for the actions.
- (c) The chairperson furnishes copies of the report to the contracting office, the contract administration office, the contractor, and others who require the information.