BMSS PRESENTS:

What Is Contract Closeout and Why Does It Matter?

THURSDAY, JULY 23
8:30 A.M. TO 9:30 A.M. CDT

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Closing Time: Why Contract Closeouts Matter

A practical training for reducing risk, freeing funds, and finishing the file cleanly.

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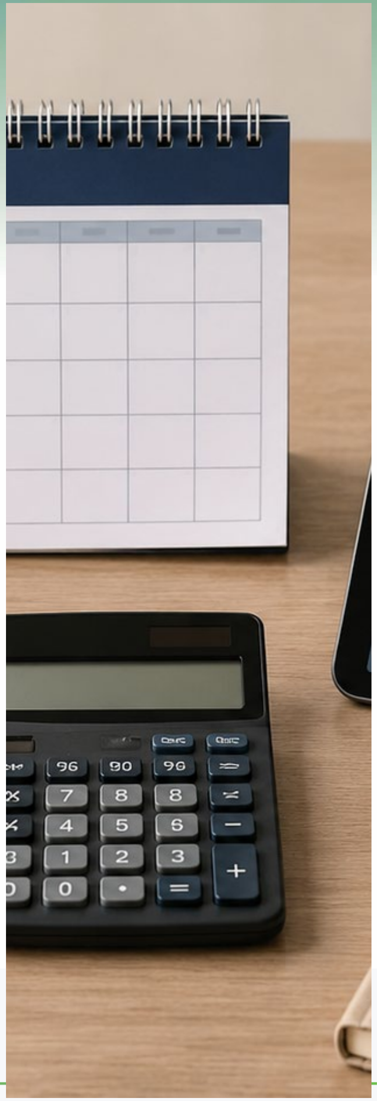
Today's Agenda

1. What is a Closeout?
2. Why Closeouts are Necessary to Avoid Risk
3. When to Begin a Closeout
4. Biggest Traps in Closeouts
5. Best Practices

Training Goal

Closeout is not "paperwork after the work." It is how the government and contractor prove the work is complete, settle obligations, and reduce residual risk.

Develop a clearer understanding → How to avoid Risk → Common Pitfalls → Confidence in your closeouts



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What is a Closeout?

The administrative process that confirms all contractual duties are complete and the file can be closed.

Closeout: The Final Control Point

A closeout is the coordinated process of documenting that the government received what it bought, the contractor was paid properly, funds were reconciled, and the official contract file is complete.

Hodor's Cousin Clodor

- Performance accepted
- Final invoice / payment resolved
- Funds reviewed and excess deobligated
- Property, patents, royalties, security, and claims cleared
- Closeout statement placed in the official file

The Trigger: Physical Completion

Most closeout clocks start when the contract is physically complete — deliveries/services accepted and options expired, or the government issues a complete termination notice.

Supplies

Deliveries completed + inspected + accepted

Services

Performance completed + accepted by the Government

Terminations

Complete termination notice or applicable period expired

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Basis: FAR 4.804-4, acquisition.gov.

Who Owns a Closeout?

Closeout is a team sport, but it needs a quarterback.

Contract Administration Office	Initiates closeout; tracks funds and required clearances
Contract Administrator	Gathers, reviews, and submits all necessary documentation
COR / Program	Confirms acceptance and performance completion
Finance / Paying Office	Final payment, refunds, excess funds, accounting
Contracting Officer	Final say and Closeout Authority

Source: FAR 4.804-5

Why Closeouts Are Necessary to Avoid Risk

Open files create open exposure: financial, audit, claims, records, and mission risk.

Open Contracts Leave Risk on the Table

Every unresolved item is a possible future exception.

Financial

Unused funds remain obligated or costs remain unsettled

Compliance

Required reports, releases, or clearances missing, timeline

Audit

Weak evidence makes decisions harder to defend

Claims

Unresolved issues can resurface later

Records

File cannot support retention and disposal requirements

Source: FAR 4.804-5

Financial Risk: The Money Does Not Clean Itself Up

At the start of closeout, the administering office must review funds status and notify the contracting office of excess funds that can be deobligated.

Obligated → Spent → Remaining → Deobligate or resolve

Closeout converts “maybe” dollars into documented decisions.

Source: FAR 4.804-5(a), acquisition.gov.

Audit & Records Risk: No Evidence, No Defense

A complete file lets a future reviewer answer three questions quickly:

- What did we buy and accept?
- What did we pay and why?
- What obligations, releases, and clearances remain?

FAR Part 4 requires agencies to establish procedures for handling, storing, and disposing of contract files.

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Source: FAR 4.805, acquisition.gov.

Records: No Evidence, No Defense

- Final invoice
- Release of Claims
- Patent Report
- Subcontractor releases
- Small Business reporting
- Final technical reports
- CDRLs
- Property disposition Security/Classified Material certification

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Source: FAR 4.805, acquisition.gov.

When to Begin a Closeout

Good closeouts start before the last invoice — not after everyone has moved on

Start Closeout Before Closeout Starts

The easiest closeout is built during performance.

Award	Know deliverables, reports, property, security, data, and funding structure
Performance	Collect acceptance evidence, modifications, and funding changes as they happen
90-120 days before end	Confirm option status, pending mods, invoices, property, reports, and funding
Physical completion	Launch formal administrative closeout workflow
Final payment	Close paying office file and retain evidence

Source: FAR 4.804-4 and 4.804-5.

FAR Time Standards: Know the Clock

It's VITAL that you know how much time is required for each Contract type

Firm-fixed-price

6 months after evidence of physical completion

All other contracts

20 months after evidence of physical completion

Indirect rates required

36 months after evidence of physical completion

Key point: Don't assume every contract closes the same way.

Source: FAR 4.804-1(a), acquisition.gov.

Biggest Traps in Closeouts

The trouble is usually not one big problem — it is a collection of small unresolved items.

The Five Most Common Closeout Traps

1	**Waiting until the end**	People leave, memories fade, support gets harder.
2	**Unresolved final invoice**	Payment and funding cannot be reconciled cleanly.
3	**Missing acceptance evidence**	The file cannot prove completion.
4	**Property / security / IP left open**	Special clauses create special closeout duties.
5	**Sub Closeouts being incomplete**	Can't reconcile your own invoicing without closed subs

SOurce: FAR 4.804-1, 4.804-5, and 42.708.

The Five Most Common Closeout Traps

5 **Sub Closeouts being incomplete** — Can’t reconcile your own invoicing without closed subs

Closing your subcontractors are the FIRST step in the closeout process. This is the biggest mistake we see. If you award your subcontractor a CPFF or cost reimbursable contract and haven’t closed and de-obligated the funds from their subcontract BRFORE you de-obligate from your contract, this is a risk and could cost your company $$. Very important to make sure you allow your subcontractors the time to review and evaluate their audited indirect rates for rate adjustments. If you de-obligate all the funds at the top level, you are putting your company on the hook for paying any unbilled rate adjustments for your subcontractors.

Hard Stop: When Not to Close

A contract file shall not be closed if the contract is in litigation or appeal, or if termination actions remain incomplete.

- Litigation / appeal pending
- Termination actions incomplete
- Unresolved contractual actions
- Indirect rates not audited for CPFF contracts

When in doubt, document the blocker and assign an owner rather than letting the file drift.

Source: FAR 4.804-1(c), acquisition.gov.

Quick Closeouts

Quick Closeout Procedures are a FAR-authorized method that allows the Government to close out **certain physically completed cost-reimbursement contracts** before final indirect cost rates are established for the contractor's fiscal year.

The authority is found in **FAR 42.708 – Quick-Closeout Procedures**.

Why Quick Closeout Exists
Normally, a cost-type contract cannot be fully closed until:

- Final indirect cost rates are negotiated (often by DCAA/DCMA), and
- The contractor submits a final voucher.

*This process can take years. Quick closeout allows the Government to estimate and negotiate the remaining indirect costs so the contract can be closed sooner.

When Can Quick Closeout Be Used?
Under **FAR 42.708**, quick closeout may be used when:

- The contract is **physically complete**.
- The amount of unsettled indirect costs is considered **relatively insignificant**.
- The contracting officer determines that using estimated indirect rates is appropriate.
- The contracting officer has discretion to decide whether quick closeout is suitable.

SOurce: FAR 4.804-1, 4.804-5, and 42.708.

Best Practices

Closeout discipline makes compliance easier, funding cleaner, and the next audit less painful.

The Closeout Playbook

Build a closeout checklist by contract type and clause set

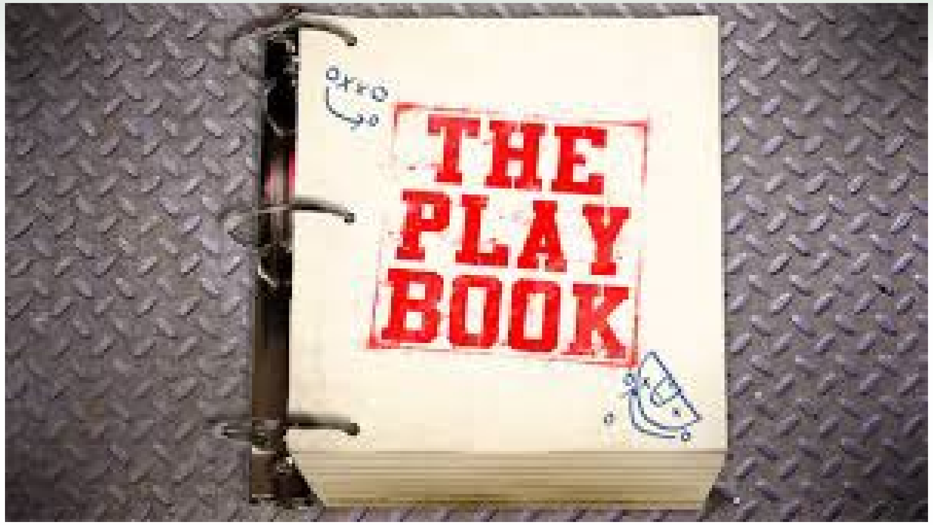
Start a rolling closeout file during performance

Set monthly aging reviews for physically complete contracts

Resolve mods, claims, invoices, property, and reports before final payment whenever possible

Use quick-closeout when criteria are met and risk is low

Document every “not applicable” decision



Source: FAR 4.804-5 and 42.708.

Good News

Today, the Government is not taking nearly as long as it once did to complete incurred cost audits and establish final indirect cost rates.

When I worked in contract closeouts from **2010 to 2013**, there was a significant backlog. I was routinely closing cost-reimbursement contracts that had ended **six to eight years earlier** because final indirect rates had not yet been established.

It was a nightmare. Most contract files were still paper copies in blue and red folder long before SharePoint and electronic records. Over the years, documents were lost, employees left, offices moved, and valuable institutional knowledge disappeared. Reconstructing those files added months to the closeout process.

The lesson is simple: the longer a contract stays open, the greater the risk of losing documentation, knowledge, and efficiency. Good contract administration throughout performance makes for a much smoother closeout.

SOurce: FAR 4.804-1, 4.804-5, and 42.708.

Key Takeaways

- Closeout is a risk-control process, not a clerical afterthought.
- Physical completion starts the clock — but preparation starts earlier.
- Funds, evidence, reports, clearances, and final payment all (need clean documentation.) -"Think of it like balancing your checkbook. If you forget to clear checks you've already written, your available balance isn't accurate. The federal government has the same challenge. Until contracts are closed and excess funds are deobligated, those dollars remain tied up, making it harder to manage taxpayer money efficiently and fund new priorities.“
- The best closeouts are owned, tracked, and started before the team moves on.

Sources used

FAR 4.804 Closeout of contract files; FAR 4.804-1-time standards; FAR 4.804-4 physically completed contracts; FAR 4.804-5 procedures; FAR 4.805 records; FAR 42.708 quick-closeout. Acquisition.gov, accessed June 2026.

Questions?

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If you have a question that you'd like to ask, please use the Q&A Button at the bottom of your screen.

CPE certificates will be issued approximately two weeks after the presentation.