Government Contract Closeout: What It Is, Why It Matters, and Best Practices

Government contract closeouts are far more than a paperwork exercise – they are a critical risk management process that begins at contract award, not at the end of performance. Meaghan Clark and Brendan Kelly outline the key principles, common pitfalls, and best practices that every government contractor should understand to reduce risk, remain compliant, and protect their business.

WHAT IS A CONTRACT CLOSEOUT?

Per the **Federal Acquisition Regulation (FAR)**, a contract closeout is the administrative process that confirms all contractual duties have been completed and the contract file can be officially closed. It involves reconciling funds, obtaining required clearances, resolving final invoices, reconciling indirect costs, addressing government property, and securing all required documentation from both prime contractors and subcontractors.

WHY CLOSEOUTS MATTER: THE RISK OF OPEN FILES

An open contract is an open liability. Every unresolved item increases compliance risk and can lead to financial exposure, audit findings, and delayed contract closeout. Key risk categories include:

- **Financial Risk:** Unused funds remain obligated and cannot be reallocated until de-obligated. Unreconciled indirect rates – particularly for cost-reimbursable and cost-type government contracts – can result in money owed to or from the government long after performance ends.
- **Audit Risk:** Incomplete or poorly organized contract documentation can create audit findings during DCAA, DCMA, or ISO audits. A clean, cradle-to-grave file is your best protection.
- **Compliance Risk:** Failure to return government property, transfer security clearances, or submit required small business reports can delay closeout and increase compliance risk.

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CLOSEOUT TIMELINES BY CONTRACT TYPE

- **Firm Fixed Prices (FFP):** six months after physical completiton
- **All Other Contract Types:** 20 months after physical completion
- **Cost-Plus / Cost-Reimbursable:** 36 months after physical completion (to allow for final audited indirect rates)

WHEN DOES CLOSEOUT BEGIN? AT AWARD – NOT COMPLETION

The most common mistake contractors make is waiting for a trigger – such as the end of performance or a notice from DCAA – to begin the closeout process. In practice, the best closeouts begin on day one of contract performance. Maintaining organized, consistent file structures, documenting acceptance evidence throughout the contract lifecycle, and conducting monthly portfolio aging reviews all but eliminate last-minute scrambles.

THE FIVE MOST COMMON GOVERNMENT CONTRACT CLOSEOUT MISTAKES

1. **Waiting Until the End:** Waiting until contract completion often results in lost documentation, staff turnover, and missing records that delay closeout.
2. **Outstanding Invoices and Indirect Rate Adjustments:** Fee withholdings, indirect rate adjustments, and DCAA audit timelines can complicate final billing and extend closeout for months or years.
3. **Missing Acceptance Evidence:** Without documented proof of deliverable acceptance, you cannot substantiate payment or close the file.
4. **Open Property, Security, and IP Items:** Government-Furnished Property (GFP) barcodes, CAD cards, and IP rights must all be formally addressed and transferred before closeout is complete.
5. **Subcontractor Closeouts Not Completed First:** You cannot reconcile your own prime contract until all subcontractor releases of claims, property returns, patent certifications, and final invoices are received. Close subs first – always!

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QUICK CLOSEOUT: A VALUABLE OPTION

Under **Federal Acquisition Regulation (FAR) 42.708**, the government may authorize a quick closeout for physically complete cost-reimbursable contracts when the unsettled indirect cost amounts are relatively insignificant and estimated rates are deemed appropriate. Quick closeout procedures can significantly reduce administrative costs, shorten contract closeout timelines, and improve cash flow for eligible government contractors.

BEST PRACTICES: THE CLOSEOUT PLAYBOOK

- Maintain a contract-type-specific closeout checklist from the day of award
- Maintain a contract closeout file thoughout the contract performance
- Conduct monthly aging reviews across your full contract portfolio
- Resolve mods, claims, and invoices prior to final payment whenever possible
- Document every non-applicable closeout requirement with a clear written rationale
- Designate a closeout “quarterback” - typically your contract administrator - to centralize documentation and communication

BOTTOM LINE

Government contract closeouts are not simply the final administrative step – they demonstrate the strength of your organization’s contract management and compliance processes. Contractors who integrate closeout planning throughout the contract lifecycle reduce risk, improve audit readiness, and complete closeouts more efficiently.