VOLUME 11A, CHAPTER 2: “PROJECT ORDERS”

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by bold, italic, blue and underlined font.

The previous version dated August 2017 is archived.

<table>
<thead>
<tr>
<th>PARAGRAPH</th>
<th>EXPLANATION OF CHANGE/REVISION</th>
<th>PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>020301.C.</td>
<td>Date change made to extend G-Invoicing implementation period to accommodate software updates.</td>
<td>Revision</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table of Contents

VOLUME 11A, CHAPTER 2: “PROJECT ORDERS” ................................................................. 1

0201 GENERAL .................................................................................................................... 4
   020101. Purpose ............................................................................................................. 4
   020102. Authoritative Guidance .................................................................................. 4

0202 DEFINITIONS .............................................................................................................. 4
   020201. DoD-owned Establishment ........................................................................... 4
   020202. Contractual Relationship and Commercial Contracts .................................. 4
   020203. Allotment ....................................................................................................... 5
   020204. Approved Projects ......................................................................................... 5

0203 GENERAL POLICY ...................................................................................................... 5
   020301. Department of the Treasury Guidance .......................................................... 5
   020302. Recordable Obligation .................................................................................... 5
   020303. Project Order Forms ....................................................................................... 6
   020304. Work Description ........................................................................................... 6
   020305. Use of Standard Line of Accounting (SLOA) .................................................. 6

0204 ADVANCE PLANNING .................................................................................................. 6
   020401. Work Estimates to Performing DoD Establishments ........................................ 6
   020402. Cost Estimates ............................................................................................... 7

0205 CONDITIONS GOVERNING ISSUANCE AND ACCEPTANCE OF PROJECT
   ORDERS ............................................................................................................................. 7
   020501. Contractual Relationship ............................................................................... 7
   020502. Under the Same Activity Commander ......................................................... 7
   020503. Expiration ....................................................................................................... 7
   020504. DoD-Owned Establishment ........................................................................... 7
   020505. Payments ....................................................................................................... 7
   020506. Specific, Definite, and Certain ....................................................................... 8
   020507. Certification of Availability for Purpose ....................................................... 8
   020508. Bona Fide Need .............................................................................................. 8
   020509. “Entire” Versus “Severable” ......................................................................... 8
   020510. Commencement of Work .............................................................................. 10
   020511. Contingent Event Prohibition ..................................................................... 10
   020512. Lawful Purpose ............................................................................................. 10
   020513. Authorized Purpose ...................................................................................... 10
   020514. Project-Order Modifications ...................................................................... 10
   020515. Ability to Perform ........................................................................................ 11
   020516. Subsidiary Ordering ....................................................................................... 11
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>020517</td>
<td>Project Order Default</td>
<td>12</td>
</tr>
<tr>
<td>020518</td>
<td>Project Order Financing</td>
<td>13</td>
</tr>
<tr>
<td>020519</td>
<td>Direct-Cite Prohibition</td>
<td>13</td>
</tr>
<tr>
<td>020520</td>
<td>Reimbursement of Costs Incurred in Performance of a Project Order</td>
<td>13</td>
</tr>
<tr>
<td>0206</td>
<td>CONDITIONS GOVERNING PERFORMANCE OF PROJECT ORDERS</td>
<td>13</td>
</tr>
<tr>
<td>020601</td>
<td>Timeliness</td>
<td>13</td>
</tr>
<tr>
<td>020602</td>
<td>Notification of Delivery Schedule</td>
<td>13</td>
</tr>
<tr>
<td>020603</td>
<td>Summary of Costs</td>
<td>13</td>
</tr>
<tr>
<td>020604</td>
<td>Expiration Dates</td>
<td>14</td>
</tr>
<tr>
<td>0207</td>
<td>REIMBURSEMENTS TO PERFORMING DOD-OWNED ESTABLISHMENTS</td>
<td>14</td>
</tr>
<tr>
<td>020701</td>
<td>Reimbursement</td>
<td>14</td>
</tr>
<tr>
<td>020702</td>
<td>Fixed-Price Project Orders</td>
<td>14</td>
</tr>
<tr>
<td>020703</td>
<td>Cost-Reimbursement Project Orders</td>
<td>15</td>
</tr>
<tr>
<td>020704</td>
<td>Unfunded Costs</td>
<td>15</td>
</tr>
<tr>
<td>020705</td>
<td>Working Capital Fund</td>
<td>16</td>
</tr>
<tr>
<td>020706</td>
<td>Non-Working Capital Fund</td>
<td>16</td>
</tr>
<tr>
<td>020707</td>
<td>Reimbursable Costs</td>
<td>16</td>
</tr>
<tr>
<td>020708</td>
<td>Termination Costs</td>
<td>16</td>
</tr>
<tr>
<td>020709</td>
<td>Billing</td>
<td>16</td>
</tr>
<tr>
<td>0208</td>
<td>ACCOUNTING FOR COST OF PERFORMANCE</td>
<td>17</td>
</tr>
<tr>
<td>020801</td>
<td>Administration</td>
<td>17</td>
</tr>
<tr>
<td>020802</td>
<td>Working Capital Fund</td>
<td>17</td>
</tr>
<tr>
<td>020803</td>
<td>Obligation Authority</td>
<td>17</td>
</tr>
<tr>
<td>020804</td>
<td>Costs Accounts</td>
<td>17</td>
</tr>
<tr>
<td>020805</td>
<td>Billings</td>
<td>17</td>
</tr>
<tr>
<td>0209</td>
<td>EXEMPTIONS</td>
<td>17</td>
</tr>
</tbody>
</table>
CHAPTER 2

PROJECT ORDERS

0201 GENERAL

020101. Purpose

This chapter prescribes the financial management guidance and policy involving project orders issued pursuant to the authority in Title 41, United States Code (U.S.C.), section 6307. Chapter 1 provides the overall guidance and discussion of general reimbursement procedures and related supporting documentation.

020102. Authoritative Guidance

A “project order” is a specific, definite, and certain order issued under the authority contained in 41 U.S.C. § 6307. The United States Coast Guard (USCG) has similar project order authority contained in 14 U.S.C. § 151 to accept orders from, and enter into reimbursable agreements with establishments, agencies, and departments of the Department of Defense (DoD). When placed with, and accepted by, a separately managed DoD-owned establishment or the USCG, the project order serves to obligate an appropriation(s) in the same manner as an order or contract with a commercial enterprise.

0202 DEFINITIONS

020201. DoD-owned Establishment

A “DoD-owned establishment” for the purpose of this chapter is any DoD-owned and operated activity (that is, not contractor owned or operated). Such activities include working capital fund activities; other revolving fund activities; and those appropriated fund activities engaged in reimbursable operations that reasonably are not severable into fiscal year segments and where such operations can be forecasted with reasonable accuracy. Examples of such activities include: Equipment overhaul or maintenance shops, manufacturing or processing plants or shops, research-and-development laboratories, computer software design activities, testing facilities, proving grounds owned and operated by the Department, and engineering and construction activities.

020202. Contractual Relationship and Commercial Contracts

Terms such as “contractual relationship,” and “commercial contracts,” are used to indicate the close relationship between project orders and commercial contracts in the particular circumstances involved. The use of these and similar terms neither must be construed as requiring project orders to be subject to the provisions of the Federal Acquisition Regulation nor as imposing upon the parties to a project order agreement, responsibilities (legal or otherwise) not provided for in this chapter.
020203. Allotment

The term “allotment” includes approved operating budgets for the operation of the U.S. Armed Forces.

020204. Approved Projects

As used in the referenced authority, the term “approved projects” simply refers to projects approved by officials having legal authority to do so.

0203 GENERAL POLICY

020301 Department of the Treasury Guidance

A. **Section 4706 "Intragovernmental Requirements"** of the Treasury Financial Manual (TFM) discusses the requirements necessary to properly report intragovernmental transactions resulting from business activities (i.e., buy/sell transactions) between two federal government entities, called trading partners. It further references the Intragovernmental Transaction Guide (**Appendix 10 to the TFM**) as containing the business rules and processes to properly record, report, and reconcile intragovernmental transactions, including the processes for dispute resolution.

B. Within these business rules in Appendix 10, Section 9 provides the standard **Interagency Agreement (IAA) Form** containing two sections: the General Terms and Conditions (GT&C) Section (**Form 7600A**) and the Order Requirements and Funding Information (Order) Section (**Form 7600B**). Treasury has established the use of both these forms as necessary to ensure the proper recording and reporting on intragovernmental buy/sell transactions, and to eliminate the federal-wide reporting deficiencies impacting the Financial Report of the United States Government.

C. The **Treasury's G-Invoicing** system (formerly named the Invoice Processing Platform) will be used to negotiate, broker, and electronically store the GT&Cs between buyers and sellers for all inter- and intra-governmental reimbursable transactions as appropriate system capabilities come online. This requirement is for IAAs established during or after Fiscal Year (FY) 2018, and whose terms extend beyond FY 2018.

020302. Recordable Obligation

A. A project order is a valid and recordable obligation of the issuing entity when the order is placed with and accepted by a separately managed DoD-owned establishment or the USCG, providing the obligation otherwise meets the criteria for recordation of an obligation contained in **31 U.S.C. § 1501**.

B. All orders or contracts for work or material or for the manufacture of material pertaining to approved projects placed with DoD-owned establishments or the USCG must be considered as obligations in the same manner as prescribed for similar orders or contracts.
placed with commercial manufacturers or private contractors. The appropriations must remain available for the payment of the obligations so created as in the case of contracts or orders with commercial manufacturers or private contractors.

020303. Project Order Forms

A. As stated in paragraph 020301.B, Treasury has established a standard agreement form (the IAA form) containing the GT&Cs (Form 7600A) and the Order (Form 7600B) for federal-wide use in carrying out buy/sell transactions between trading partners. These forms must be issued by an authorized DoD or USCG entity and accepted for performance in a DoD-owned and operated establishment.

B. To properly document that the order for goods or services is a project order, the trading partners must ensure the proper statute (41 U.S.C. § 6307) is cited on the form(s) for DoD project orders, and 14 U.S.C. § 151 is cited for USCG-related project orders.

020304. Work Description

A project order must include an adequate description of the work to be performed. Otherwise, the order is not sufficient to create a recordable obligation. (Note: There may be repeat orders for which the performing installation has detailed and definite specifications available. Thus, if the performing activity has on file those elements that make a project order specific, definite, and certain, and those elements are in sufficient detail to enable the performing installation to proceed in carrying out the work ordered, then it is not necessary to also include those elements within the project order itself. In such cases, reference may be made on the project order that specification documentation is retained on file by the performing activity.)

020305. Use of Standard Line of Accounting (SLOA)

In accordance with Volume 1, Chapter 4 “Standard Financial Information Structure”, buyers and sellers must ensure the SLOA is adhered to and properly annotated when generating or accepting a reimbursable order, as applicable. Refer to Volume 1 Chapter 4 for additional details and requirements.

0204 ADVANCE PLANNING

020401. Work Estimates to Performing DoD Establishments

Ordering DoD Components or the USCG must give performing DoD-owned establishments advance-planning data covering the work estimated to be placed with the performing DoD-owned establishment. A performing DoD-owned establishment, in the development of its operating budget, must use this advance planning data. An operating budget is subject to revision as subsequent specific work requirements, including significant revisions thereof, are determined.
020402. Cost Estimates

At the appropriate time during project order negotiations, performing DoD-owned establishments must give ordering DoD Components cost estimates for each item to be produced or work to be performed under the project order.

0205 CONDITIONS GOVERNING ISSUANCE AND ACCEPTANCE OF PROJECT ORDERS

020501. Contractual Relationship

A contractual relationship must exist (i.e., be created by the project order) between the parties involved.

020502. Under the Same Activity Commander

Consistent with the concept that one entity cannot enter into a formal contract with itself, a project order must not be used by one organizational unit to order work from another organizational unit under the same activity commander.

020503. Expiration

Expiration dates of project orders must not extend beyond the point in time in which the appropriation funding the order cancels (generally five years after the appropriation expires for new obligations).

020504. DoD-Owned Establishment

Project orders must be issued only to DoD-owned establishments (see definition in paragraph 020201) that have been given the authority to operate a reimbursable program in an amount equal to or exceeding the project order amount(s). Those issued to the USCG under 14 U.S.C. § 151 would be issued in accordance with USCG established regulations. To determine whether the project order statute provides the statutory authority for an intra-DoD order, determine whether the order is being placed with a DoD-owned establishment. Also, determine whether the order is “entire” under paragraph 020509 and satisfies the other requirements identified in this chapter.

020505. Payments

All payments made by an ordering DoD Component to a performing DoD-owned establishment must be based upon either an approved payment schedule in the order or upon billings made to the ordering entity in accordance with established agreement(s).
020506. Specific, Definite, and Certain

Project orders are analogous to contracts placed with commercial concerns and, similar to such contracts, must be specific, definite, and certain both as to the work encompassed by the order and the terms of the order itself. A project order must be accepted by the performing entity as a basis of obligation by the issuer.

020507. Certification of Availability for Purpose

Project orders are subject to the same fiscal limitations that are contained within the appropriation from which they are funded. On the other hand, the performing entity may not be aware of all such appropriation limitations. Therefore, an official of the issuing entity must offer a certification on or attached to the project order stating that the funds cited on the project order are properly chargeable for the purposes cited in the project order.

020508. Bona Fide Need

The issuing activity’s project order must serve a bona fide need that exists in the fiscal year in which the project order is issued; otherwise, a valid obligation is not accomplished. It is not intended that the bona fide need of the fiscal year rule be construed to preclude procurement lead-time. Thus, where materials, for example, cannot be obtained in the same fiscal year in which they are needed and contracted for, a provision for delivery in the subsequent fiscal year does not violate the bona fide need rule so long as the time intervening between contracting and delivery is not excessive and the procurement is not for standard commercial items readily available from other sources. Bona fide need generally is a determination of the requesting activity and not that of the performing activity. A performing activity must refuse to accept a project order if it is obvious that the project order does not serve a need existing in the fiscal year in which issued.

020509. “Entire” Versus “Severable”

A. To be eligible for project order financing, the need must be present in the fiscal year in which the project order is issued, require a series of actions over a period of time which may cross a fiscal year, and call for work or services that are reasonably not severable between fiscal years. For instance, an order for an “entire” end-item or service would call for a single or unified outcome or product and would be one in which few, if any, benefits would accrue if the work were terminated without completion at the end of the fiscal year in which it was placed.

B. The distinction between “entire” and “severable” may not be evident readily and, therefore, requires some judgment. The objective desired by the requesting customer must be used in the determination. For example, if the customer supplies an item (for example, an aircraft) for overhaul or renovation and wants the entire item returned in a serviceable state, then a repair of a single component (for example, avionics, landing gear, electronics) of the item when the item consists of many components needing repair, would not be a “severable” action. Conversely, if a customer desires an automated system that consists of multiple modules and some (or all) modules can be used independent of the entire system, then each module that can be used independent of the entire system is severable.
C. The following are examples of efforts that ordinarily are severable and, therefore, not eligible for procurement as a project order:

1. Custodial or housekeeping services;
2. Security or fire protection services;
3. Refuse collection;
4. Routine maintenance in general, including: grounds or surfaced-area maintenance, heating and air conditioning systems operation and maintenance, and other real and personal property maintenance;
5. Services such as: education, training, subsistence, storage, printing, laundry, welfare, transportation (including port handling), travel, utilities or communications when any of these purposes is the primary purpose of the request; and
6. Efforts where the stated or primary purpose of the order is to acquire a level of effort (for example, 100 hours, 20 weeks, or one year) rather than a specific, definite, and certain end-product.

D. The following are examples of efforts in which an entire need generally exists and, therefore, are eligible for project order financing:

1. Manufacture, production, or assembly of items including experimental prototypes or items manufactured and assembled for test. “Items” include ships, aircraft, guided missiles, other weapons, vehicles of all kinds, ammunition, clothing, machinery and equipment for use in such operations, and other military and operating supplies and equipment (including components and spare parts);
2. Renovation, rebuild, rehabilitation, reconditioning or overhaul of items, including such operations as are necessary to restore an item to a condition of serviceability equivalent to its original state;
3. Alteration or modification in design or assembly of an item to meet revised specifications or to correct defects;
4. Construction or conversion of items (including buildings and other structures), utility and communication systems, and other public works;
5. Development of software programs and automated systems when the purpose of the order is to acquire a specific, definite, and certain nonseverable end-product that is achievable reasonably with the resources (financial, human, and plant) available to the provider rather than a level of effort over an extended period; and
6. Production of engineering and construction related products and services.

020510. Commencement of Work

The work to be performed under project orders must be expected to begin within a reasonable time after its acceptance by the performing DoD-owned establishment or the USCG.

A. Although work on a project order is not required to commence in the year of project order acceptance, as a minimum requirement, evidence must exist at the time of project order acceptance showing the intention that work (or procurement if required prior to the beginning of work) must (1) begin without delay (usually within 90 days) and (2) be completed within the normal production period for the specific work ordered.

B. If work (or procurement if required prior to the beginning of work) financed from an appropriation that expired for obligation on September 30 on a project order does not begin, or is not expected to begin, before January 1 of the following calendar year, then the project order must be returned by the performing activity for cancellation. If it is documented that the delay is unavoidable and could not have been foreseen at the time of project order acceptance, and that documentation is retained for audit review, then the project order can be retained and executed.

020511. Contingent Event Prohibition

A project order must not be issued if commencement of work is contingent upon the occurrence of a future event or authorizing action by the ordering entity.

020512. Lawful Purpose

Project orders must not be used to contravene provisions of the law or accomplish by means of this device what regulations do not permit under commercial contracts.

020513. Authorized Purpose

Project orders must not be issued for the primary (or secondary) purpose of continuing the availability of appropriations.

020514. Project-Order Modifications

A. The project order statute differs from the Economy Act at *31 U.S.C. § 1535* because it permits agencies to account for obligations for orders in the same manner as orders for similar work placed with commercial manufacturers and private contractors. Project orders, similar to commercial contracts, may contain special provisions and may be modified. Unlike procurement contracts with commercial concerns where competition requirements limit permissible contract modifications, project orders may be changed or increased at any time to accommodate new or additional work so long as proper funding is available, and so long as the
new work otherwise meets the general conditions governing issuance and acceptance of project orders.

B. If the appropriation used to fund the initial order remains available for new obligation, then use it to fund all modifications that are a bona fide need of that appropriation, even if the modification changes the scope of the project order.

C. If the appropriation used to fund the initial order has expired, then use it to fund only those amendments and modifications that are within the general scope of the initial project order.

D. All modifications that increase or change the general scope of work of the original order must be charged to a current appropriation. In cases where the original appropriation has expired and no longer is available for new obligations, and the modification or amendment changes the general scope of the original order, the amendment or modification must be funded from a current appropriation.

E. The appropriation cited on the project order must remain available for price increases and changes that are within the scope of the original order. These obligational rules apply equally to fixed-price and cost reimbursable project orders.

F. Limitation of cost clauses in commercial cost-reimbursement contracts that are the obligational basis for the requirement to charge current appropriations for all ceiling increases, including those within the general scope of such contracts, are not applicable to cost-reimbursement project orders. Limitation of cost clauses govern the legal liability of the United States to third parties, whereas transactions within or between agencies are governed by principals of comity. Whether to structure such project orders on a fixed-price or reimbursable basis is a matter of agency discretion and convenience, but not obligational relevance. Whether the work changes the general scope of the original order, or otherwise satisfies an emergent bona fide need of the current fiscal period, governs whether current funds must be charged. Subject to the provisions of paragraph 020708, amendments to project orders which have the effect of partial or complete termination of such orders must provide for the inclusion of the costs of termination.

020515. Ability to Perform

Project orders must be issued only to those DoD-owned establishments that are capable of performing substantially the work ordered. “Substantially” as used in this paragraph, means that the project order recipient must incur costs of not less than 51 percent of the total costs attributable to rendering the work or services ordered. Total costs to render the work or services ordered include the costs of goods or services obtained from or provided by contractors.

020516. Subsidiary Ordering

The provisions of this chapter are not intended in any way to authorize one DoD-owned establishment to act as a general contracting or purchasing agent for another entity.
A. Subsidiary ordering (within the government) and contracting (with commercial firms) pursuant to a project order is authorized, given such subsidiary ordering and contracting is incident to, and is for use in, carrying out the purpose of the project order.

B. Project orders must contemplate the use of personnel and facilities (and may include the use of other resources) on the part of the project order recipient, but beyond those incident to contract procurement. In this connection, it is not improper for a project-order recipient to subcontract for component parts when the recipient later assembles those parts into the end-product ordered. The assembly operation includes the use of personnel whose technical skills are essential to completion of the job. In addition, the work expended in the assembly operation must be of such an extent that it avoids a perception of the project order being used for contract procurement.

C. If a project order cannot be placed with another DoD-owned establishment because that establishment would fill the order by contracting with a commercial concern for performance of substantially the entire order, then it is possible the order could be placed pursuant to the Economy Act. This Act permits the agency or agency unit filling the order to provide or procure by contract the goods and services necessary to perform the order.

020517. Project Order Default

A. Where a recipient of a project order defaults or fails to perform work or services specified in the order, and a replacement project order is required as the result of such default, the following apply:

1. Defaulted work or services may be procured from another DoD-owned establishment or the USCG to the extent of any unobligated balance in the appropriation thus obligated.

2. Similarly, a project order also may be issued to a DoD-owned establishment or the USCG under an appropriation obligated by contracts with outside contractors when such contract is terminated for default or failure on part of the contractor to perform work or services specified in the contract.

3. Replacement project orders resulting from defaults may be issued and obligated subsequent to the period of availability of the appropriation for obligation if the replacement project order is made without undue delay after the termination of the original contract or project order.

B. A replacement project order fulfills a bona fide need of the appropriation that had funded the contract or project order that was terminated for default. The replacement project order must be awarded on the same basis and be similar substantially to the original project order in its scope and size. The replacement project order must not extend beyond the point in time in which the ordering appropriation cancels (generally five years after the appropriation expires for new obligation).
020518. Project Order Financing

A project order must be financed fully by the ordering DoD Component from obligational authority current at the time the project order is issued and accepted. Project orders may be issued for a research, development, test and evaluation project which is not financed to completion (i.e., prepared on an incrementally programmed basis). A research, development, test and evaluation appropriation project or program financed on an incrementally programmed basis is one that is funded for the remainder of the funding appropriation’s period of current availability or the current fiscal year vice a fully-funded-to-completion basis.

020519. Direct-Cite Prohibition

A DoD-owned establishment may only accept project orders on a reimbursable basis. Orders must not be made a subdivision of funds, similar to an allotment; nor the appropriations of the ordering entity be cited by the performing DoD-owned establishment when incurring and recording obligations incurred in performance of the order.

020520. Reimbursement of Costs Incurred in Performance of a Project Order

Reimbursement of costs incurred by a performing activity may be accomplished in the manner ordinarily used by that performing activity. Volume 5 Chapter 9 “Disbursement” recognizes that a disbursement may result from a transfer of funds from one appropriation or fund to another by a “no check drawn” transaction using a Standard Form (SF) 1080, Voucher for Transfers Between Appropriations and/or Funds; SF 1081, Voucher and Schedule of Withdrawals and Credits; or by the Department of the Treasury’s Intra-governmental Payment and Collection (IPAC) system. Volume 5, Chapter 11 provides additional information on the IPAC system and also identifies general requirements and technical specifications prescribed by the Treasury on the use of IPAC.

0206 CONDITIONS GOVERNING PERFORMANCE OF PROJECT ORDERS

020601. Timeliness

After acceptance, project orders must be performed as expeditiously as possible according to the terms as accepted. (See paragraph 020510 for additional information.)

020602. Notification of Delivery Schedule

Performing DoD-owned establishments are responsible for promptly advising ordering DoD Components concerning changes in delivery schedules.

020603. Summary of Costs

For cost-reimbursement project orders, performing DoD-owned establishments must give ordering DoD Components a summary of costs incurred to date and estimates of costs to complete the order only when specifically requested by the ordering DoD Component. The ordering DoD
Component must not request the submission of this cost information any more frequently than once a month. No special report forms are authorized for this purpose.

020604. Expiration Dates

Expiration dates of project orders may be extended with the approval of the ordering DoD Component. Expiration dates of project orders may not extend beyond the point in time in which the ordering appropriation cancels.

0207    REIMBURSEMENTS TO PERFORMING DOD-OWNED ESTABLISHMENTS

020701. Reimbursement

Performing DoD-owned establishments must be reimbursed for work covered by project orders based upon fixed prices or costs incurred.

020702. Fixed-Price Project Orders

A. A fixed-price project order must establish a firm price for purposes of reimbursement for the work or services ordered. A fixed-price basis may be used when all of the following conditions are present.

1. Work specifications are stable, specific, and definite; and they are made part of the order (or incorporated by reference) for each item when the project order is accepted for performance on a fixed-price basis or amended for any changes in the scope of the work. This requirement is critical especially for project-order-accepting activities financed by a direct appropriation. An activity financed by a direct appropriation must not accept a fixed-price project order unless the activity can predict with a high degree of certainty the actual cost to complete the project order. Otherwise, the activity may violate the prohibition against inappropriately augmenting an appropriation and/or using an appropriation for a purpose not authorized.

2. When there is more than one item of work or service in a project order, including amendments for changes in scope, each item is made the subject of a separate price as shown by the order or in a list incorporated therein by reference. When the work to be performed is the subject of a work list (e.g., equipment overhaul) each entry on the work list must be considered to be an item.

3. No substantial contingencies are included in the price, nor considered to be involved in performance, so that cost variations in performance reasonably can be expected to be minor.

4. There is a satisfactory system of cost estimating used as a basis for establishing fixed prices. When cost standards are used in cost estimating for the purpose of pricing, they must be adjusted for this purpose to include expected cost variances.
5. The same cost elements are used in cost estimating and establishing fixed prices as would be required for use if reimbursements were based upon actual cost incurred.

B. The requirement to establish a firm price for purposes of reimbursement for the work or services ordered does not preclude the issuance of amendments/modifications to cover changes in scope of any item in the order.

020703. Cost-Reimbursement Project Orders

A. The amount stated in a cost-reimbursement project order must be a sound estimate of the costs to be incurred in performance of the work or services ordered. Such estimates must be determined based upon the specific work to be performed. The estimate of costs must be the ceiling amount for purposes of reimbursement for the work or services ordered.

B. The performing DoD-owned establishment and the ordering DoD Component must undertake timely renegotiations for revisions of the ceiling amount of cost-reimbursement project orders. Such renegotiations must take place whenever cost performance indicates the need for adjustment of the ceiling amount upward or downward, but before the cost of performance has exceeded 75 percent, when compared with the current ceiling amount. Renegotiations need not be conducted when the probable cost of renegotiation is greater than the adjustment amount. In such cases, the performing establishment must absorb the difference, upward or downward.

C. Cost-reimbursement project orders may be converted to a fixed-price basis provided all conditions governing the use of fixed-price project orders are present. (See paragraph 020702). In addition, the conversion must occur prior to incurring either 50 percent of the total cost of the work, or 50 percent of the period of performance, whichever comes first.

020704. Unfunded Costs

For purposes of this paragraph, “unfunded costs” are costs that are not funded in the account or appropriation that funds the performing activity. (Examples of unfunded costs are not universal. Some performing revolving fund accounts, primarily the working capital fund accounts, may fund costs that are unfunded by appropriated funds. Unfunded costs of an appropriated-funded performing activity normally include labor of military personnel and depreciation of capital assets.) When an ordering DoD Component places an order on behalf of persons or agencies outside the U.S. Government (including reimbursable transactions pursuant to Foreign Military Sales discussed in Volume 15), the ordering DoD Component must identify this circumstance on the project order. Under this circumstance, the amount of unfunded costs must be specifically identified and included in the amounts contained in the:

A. Project orders issued to performing activities;

B. Billings made by the performing activity to the ordering activity;

C. Reimbursements by the ordering activity to the performing activity; and
D. Reimbursements obtained by the ordering activity from the non-federal customer.

020705. Working Capital Fund

In the case of a performing DoD-owned establishment operating under a working capital fund, reimbursable costs must be determined in accordance with Volume 11B.

020706. Non-Working Capital Fund

When the performing DoD-owned establishment is not operating under a working capital fund, a reimbursable agreement negotiated prior to the placement of a project order must be executed in accordance with the policy requirements contained in Chapter 1.

020707. Reimbursable Costs

Reimbursable costs include the cost of machinery or equipment acquired specifically for the performance of a single project order. Such costs must be specifically approved in the following circumstances:

A. In advance by the ordering DoD Component,

B. When the machinery or equipment legally could be acquired directly by the ordering fund or appropriation, or

C. Approval is incorporated into the terms of the project order agreement or amendments thereto. When this is the case, the approved costs must be segregated from other costs and shown as a separate item in the reimbursable billing. Such machinery and equipment are the property of the ordering DoD Component and must be disposed of in accordance with instructions from the ordering DoD Component.

020708. Termination Costs

Costs incurred in the termination of a project order must be reimbursable to the performing DoD-owned establishment when the order is terminated by the ordering DoD Component, to the extent that such costs do not exceed the amount of the fixed price or the current ceiling amount specified in the case of cost-reimbursement project orders. When ordering DoD Components and performing DoD-owned establishments cannot agree on the costs of termination, the case must be referred through Component financial management channels for settlement by the Under Secretary of Defense (Comptroller).

020709. Billing

To the extent feasible, performing DoD-owned establishments must bill ordering DoD Components for work performed upon the basis of jobs completed or services rendered in accordance with the terms of the project order. Whenever a long period of time is required in the
performance of a project order, periodic progress payments approximating costs incurred may be provided for in the order. Progress payments may be made to the performing DoD-owned establishment to cover the accrued cost (and other direct obligations incurred) of performance to the end of the fiscal year under an uncompleted project order. Reimbursement to a working capital fund activity for work performed prior to completion of the project order must be accomplished normally on either a progress payment or a percentage-of-completion basis.

0208 ACCOUNTING FOR COST OF PERFORMANCE

020801. Administration

Project orders are reimbursable orders and must be administered and accounted for as such. Project orders, therefore, neither must be administered nor accounted for by performing DoD-owned establishments as separate subdivisions of appropriations or funds similar to an allotment. The appropriation-type accounting for project orders must be performed by the ordering DoD Component in a manner similar to that performed for commercial contracts.

020802. Working Capital Fund

The operations of performing DoD-owned establishments financed under a working capital fund must be accounted for in accordance with Volume 11B.

020803. Obligation Authority

Project orders received and accepted are the source of obligational authority, in the amount of the project order, for the performance of the work requested.

020804. Costs Accounts

A cost account or other device must be used to accumulate the costs of performance for all project orders. Those cost accounts serve as a basis for determining the amount reimbursable for cost-reimbursement project orders and as a basis of determining a fixed price for similar future fixed-price project orders.

020805. Billings

Billings covering reimbursements must identify costs by each item listed in the project order.

0209 EXEMPTIONS

Requests for exemptions, along with appropriate justification, must be submitted to the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller).