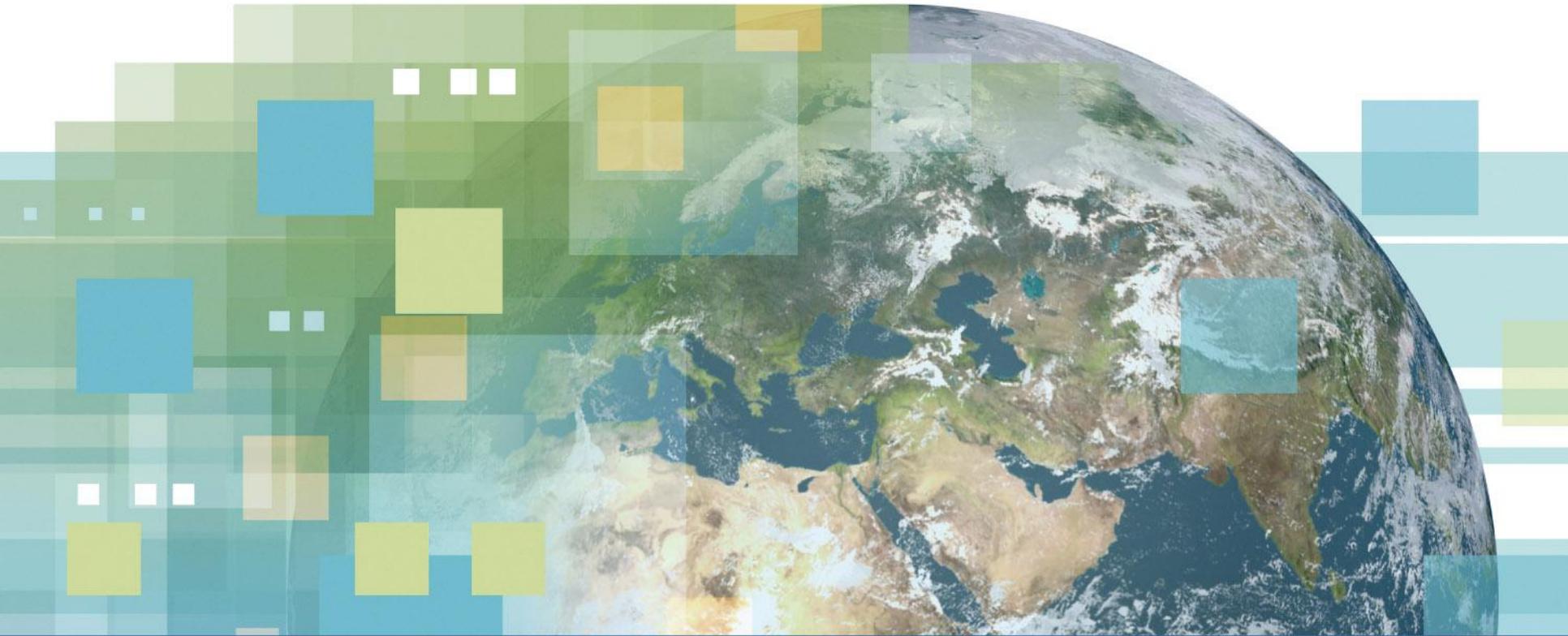


World Congress 2006

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National Contract Management Association

Major Program Terminations for Convenience: Lessons Learned

Breakout Session #902

Presented by: Ernst & Young LLP
Government Contract Services

April 10, 2006
1:30pm – 2:30pm



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The Current Environment

- Major weapon systems and other Federal programs are more vulnerable than ever
 - U.S. worldwide commitments
 - Changing threat profile
 - Wars and conflicts
 - Natural disasters
- Recent terminations

Will your company be ready?



Major Program Termination Profile

- Complex teaming arrangements/joint ventures
- Major subcontracts and multi-tier subcontractor hierarchies
- Significant Government-furnished and/or contractor acquired/produced property
- Human resource constraints

The settlement process may take several years!



Lesson No. 1

Staffing and Commitment

- Staff the termination team with competent and dedicated people of diverse technical and functional backgrounds
- Put someone in charge of the team and provide necessary authority
- Obtain a long term commitment from the Company to retain those needed to negotiate a timely settlement, dispose of property, and maintain financial control, billing and reporting



Lesson No. 2 – Data Management

- The need for data and ease of reporting current status of termination activities will continue throughout the process
- It is essential to have a detailed database available to capture termination data for reporting for internal consumption, and for communication with external stakeholders



Lesson No. 3

Accounting for Termination Costs

- Review or reacquaint yourself, in detail, with the accounting system
- Determine how treatment of costs will be modified for termination purposes
- Gain a detailed understanding of the unique requirements of FAR 31.205-6, FAR 31.205-42 and FAR Part 49/DFARS Part 249



Lesson No. 4 Charge Code System

- Immediately establish a charge code system that clearly differentiates between pre- and post-termination activities and correlates to the Compensation Cost Principle FAR 31.205-6, and Termination Cost Principle – FAR 31.205-42



Lesson No. 5

The Special Termination Clause

- If the Special Termination Clause (STC), DFARS 252.249-7000 is included in the terminated contract, recognize that it imposes additional cost collection requirements at both the prime and sub-tier levels
- The charge code system should be flexible enough to accommodate the DFARS requirements of 249.501-70 Special termination costs and the clause noted above



Lesson No. 6 – Training Needs

- Train Company personnel responsible to adjudicate subcontractor claims including the requirements of FAR Part 49/DFARS Part 249, FAR Cost Principles, property disposition, and any other related requirements imposed by the TCO or Company Management



Lesson No. 7 – Inventory Schedules

- Provide guidance to subcontractors and suppliers on the importance of accurate valuation of inventory schedules in order to expedite timely settlement of termination claims
- This is essential for inventory based claims but also important for cost based claims



Lesson No. 8

Property Disposition and Responsibilities

- Do not rely solely on the Government's Plant Clearance Automated Reutilization Screening System (PCARSS) to track the disposition and value of government property
- Consider overstaffing to ensure that property does not become the bottleneck in the termination process
- Property disposition will likely be the pacing effort in the termination



Lesson No. 9

Sub-tier Communications and Training

- Up front in the process, provide subcontractors/suppliers detailed process instructions to be followed in the preparation of Termination Settlement Proposals and processing of inventory schedules



Lesson No. 10

Audit Responsibilities

- Make an early decision on audit responsibilities for settlement proposals
 - DCAA or prime contractor?



In Closing . . .

- Successful terminations for convenience don't just happen
- Significant planning and preparation are necessary
- Manpower investment by terminated companies may be required to preserve past performance reputation

