

## SELECTED AREAS OF COST

### Chapter 13 – Continuation of Essential Contractor Services

#### **Authoritative Sources**

[DFARS 252.237-7023](#) Continuation of Essential Contractor Services

This chapter addresses the following topics:

13-1 General

13-2 Definitions

13-3 Allowability of Costs and Audit Considerations

#### **13-1 General**

Contracting Officers are required to use the DFARS clause 252.237-7023 in solicitations and contracts having essential contractor services. The clause requires the appropriate functional commander or equivalent to specifically identify which functions of a contract are mission essential services. A contractor who provides Government-determined essential contractor services shall have a written plan to ensure the continuation of these services in crisis situations.

#### **13-2 Definitions**

“Essential contractor service” means a service provided by a firm or individual under contract to DoD to support mission essential functions, such as support of vital systems, including ships owned, leased, or operated in support of military missions or roles at sea, and associated support activities, including installation, garrison, and base support services. Services are essential if the effectiveness of defense systems or operations may be seriously impaired by the interruption of these services during periods of crisis caused by the changing threat environment, hurricanes, tornados, earthquakes, blizzards, floods, or pandemic influenza, etc.

“Mission-essential functions” means those organizational activities that must be performed under all circumstances to achieve DoD component missions or responsibilities, the failure of which would significantly affect DoD's ability to provide vital services or exercise authority, direction, and control.

#### **13-3 Allowability of Costs and Audit Considerations**

Plan Preparation Costs. When the clause for continuing performance of essential services is incorporated into a contract, the cost of preparing the plan and costs to keep the plan in place, such as potential retainer fees with other service providers and costs related to contracting officer directed training activities associated with testing the effectiveness of the plan, would be valid contract costs subject to the allowability,

reasonableness, and allocability provisions of FAR 31.201 and the cost principles at FAR 31.205. Since most plans for continuation of essential services will be specific to the contract and contractor, auditors must carefully examine the validity of these costs on a case-by-case basis. Most contractors normally allocate the costs of planning for continuing operation of the overall organization as an indirect cost. However, contractors should generally charge planning costs for contractually required continuation of essential contractor services as direct costs. While CAS 402, Consistency in Allocating Costs Incurred for the Same Purpose, requires that each type of cost is allocated only once and on only one basis to any contract, the illustrations at CAS 402-60(b) support that planning for the continuing operations of the overall organization are not incurred for the same purpose in like circumstances as the planning for continuing essential contractor services as required by the contract.

**Plan Execution Costs.** The contractor is required to segregate and separately identify all costs incurred in continuing performance of essential services in a crisis situation. A contractor has 90 days (longer if approved by the contracting officer) to notify the contracting officer of an increase or decrease in costs after he or she has directed continued performance. The parties shall negotiate an equitable adjustment to the contract price as soon as practicable after receipt of the contractor's proposal. As DFARS 252.237-7023 provides for an equitable adjustment, costs to execute the plan should not be included in price proposals. If the plan execution costs are disclosed during a price proposal audit, the auditor should question the costs.