

AD-A272 510



NUMBER 7220.1  
DATE May 4, 1971

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147-3153  
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Department of Defense Instruction ASD(C)

SUBJECT

Regulations Governing the Use of Project Orders

- Refs.: (a) DoD Directive 7220.1, subject as above, February 16, 1970 (cancelled by DoD Transmittal 71-10, May 4, 1971)  
(b) DoD Directive 7220.6, "Prerequisites for Recording and Reporting of Obligations," April 28, 1955  
(c) DoD Directive 7410.4, "Regulations Governing Industrial Fund Operations," January 2, 1970  
(d) DoD Directive 7200.4, "Full Funding of DoD Procurement Programs," October 30, 1969  
(e) 41 U.S.C. 23; Title IV of the National Security Act of 1947, as amended; 10 U.S.C. 2202

I. PURPOSE

This Instruction prescribes regulations governing the use of project orders in the Department of Defense pursuant to authority contained in reference (e).

II. APPLICABILITY AND SCOPE

The provisions of this Instruction apply to the Military Departments and Defense Agencies, worldwide.

III. DEFINITIONS

- A. A "project order" is a specific, definite and certain order issued under the authority contained in 41 U.S.C. 23 for the manufacture of materials, supplies and equipment, or for other work or services which, when placed with and accepted by a separately managed and financed Government-owned and operated establishment, serves to obligate appropriations in the same manner as orders or contracts placed with commercial enterprises. Any order (as distinguished from an allotment) which is the subject of any of the purposes set forth in subsection IV.A. and B., of this Instruction, and which is placed with a Government-owned and operated establishment (as defined in subsection C., below) by a component of a Military Department or Defense Agency shall be deemed to be a "project order" and shall be subject to the provisions of this Instruction, regardless of the form in which it is

93-27474



issued. (See paragraph VI. A.13 for provisions governing the use of a uniform project-order form.)

- B. A "component of a Military Department or Defense Agency" is any Command, Bureau, Office, or any installation or activity within that Department or Defense Agency.
- C. A "Government-owned and operated establishment" for the purpose of these regulations is any shipyard, arsenal, ordnance plant, or other manufacturing or processing plant or shop, equipment overhaul or maintenance shop, research-and-development laboratory or testing facility or proving ground which is owned and operated by the Government, without respect to the manner in which the establishment is financed. It includes such establishments of other Government agencies, as well as of the Military Departments and Defense Agencies. All Government-owned and Government-operated establishments are referred to in this Instruction as "GOCO establishments" or "performing components."
- D. Terms such as "contractual relationship," "commercial contracts," "defaulting contractors," and "commercial contracting," are used to indicate the close relation between project orders and commercial contracts in the particular circumstances involved. The use of these and similar terms should not be construed as requiring project orders to be subject to the provisions of the Armed Services Procurement Regulations, nor as imposing upon the parties to a project-order agreement, responsibilities (legal or otherwise) not provided for in these regulations.
- E. The term "allotment" includes approved operating budgets for operation of the active forces.

IV. PURPOSES FOR WHICH PROJECT ORDERS MAY BE ISSUED

- A. Project orders shall be issued by components of the Military Departments and Defense Agencies to GOCO establishments for any of the following purposes:
  - 1. Production or construction, modification, conversion, alteration, renovation or rehabilitation, overhaul, or maintenance, of 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 of all such items, to the extent such work is performed in GOGO establishments under other appropriate authority.

2. Research, development, test and evaluation work, to the extent appropriately made the subject of orders pursuant to other provisions contained herein.

B. Project orders may be issued, at the option of a Military Department or Defense Agency, for specific projects for minor construction and maintenance of real property. (While these project orders, as all project orders, are subject to all provisions of this Instruction, see especially the requirements of paragraph VI. A.7).

C. Project orders shall not be issued for any purpose not authorized by subsections A. and B., above, including the following:

1. Major new construction of real property.
2. Education, training, subsistence, storage, printing, laundry, welfare, transportation (including port handling), travel or communications where any of these purposes are the primary purpose of the request.
3. Any purpose where a contractual relationship cannot exist between the ordering component and the performing component, e.g., a project order shall not be used by an organizational unit to order work or services from another organizational unit under the same activity commander.
4. Any purpose which violates any of the conditions of issuance established in subsection VI. A. of this Instruction.

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#### V. ADVANCE PLANNING

A. Ordering components shall furnish performing components with advance planning data covering the work estimated to be placed with the performing components. Such advance planning data shall be used by performing components in the development of operating budgets, subject to revision as the specific work requirements are determined.

B. It is important that advance planning data and subsequent specific work requirements, including significant revisions

3 QUALITY INSPECTED

thereof, be furnished on a timely basis. At the appropriate time during project order negotiations, performing components shall provide ordering components with cost estimates for each item to be produced, or work to be performed, under the project order.

- C. Each Military Department and Defense Agency is responsible for management control of the project order workload of field establishments under its jurisdiction.

VI. CONDITIONS GOVERNING ISSUANCE AND PERFORMANCE OF PROJECT ORDERS

A. Conditions of Issuance

1. Project orders are analogous to contracts placed with commercial concerns, and like such contracts shall be specific, definite and certain both as to the work encompassed by the order and the terms of the order itself. As required by DoD Directive 7220.6 (reference (b)), they must be accepted by the performing component as a basis of obligation by the issuer.
2. Project orders must serve a bona-fide need existing in the fiscal year in which issued; otherwise, a valid obligation is not accomplished. Due consideration shall be given to necessary procurement lead-time in establishing such need, including requirements for the replacement of stocks issued during that interval.
3. The work to be performed under project orders shall be expected to commence within a reasonable time after issue. As a minimum requirement, evidence must exist at the time of acceptance showing the intention that work (or procurement if required prior to the beginning of work) will begin without delay, and will be completed within the normal production period for the specific work ordered. Project orders shall not be issued if commencement of work is contingent upon issuance of other documents or other authorizing action by the ordering component.
4. Project orders shall not be used to contravene provisions of the law, or to accomplish by means of this device what regulations do not permit under commercial contracts.
5. Project orders may not be issued for the primary purpose of continuing the availability of appropriations.
6. Project orders, like commercial contracts, may contain special provisions and may be subsequently modified or amended.

7. GOGO establishments which are recipients of project orders must be substantially in a position to manufacture the materials, supplies and equipment, or equipped to render the work or services ordered. Subsidiary ordering (within the Government) and contracting (with commercial firms) pursuant to a project order are authorized, provided such subsidiary ordering and contracting are incident to and are for use in carrying out the purpose of the project order. In this connection, project orders must contemplate use of personal services and facilities (but may include use of other resources), on the part of the project-order recipient, substantially beyond those incident to contract procurement.
8. Recipients of project orders, upon default or failure to perform work or deliver materials specified in the orders, shall be considered as defaulting "contractors," only with respect to the effect of such default on the appropriations involved, and the ordered materials or services may be procured otherwise to the extent of any unobligated balance in the appropriations thus obligated. Similarly, project orders may also be issued under appropriations obligated by contracts with outside contractors where such contracts are terminated for default or failure on part of the contractors to perform work or deliver materials specified in the contracts. All of these project orders may be issued and obligated subsequent to the period of availability of the appropriations for obligation.
9. Project orders shall be fully financed from current obligational authority, except that: (a) project orders may be issued for research, development, test and evaluation projects which are not financed to completion; (b) project orders may be issued for materiel financed under contract authorization(s), provided such orders are programmed in such a manner that the expenditures to be incurred thereunder shall not exceed the cash appropriation(s) available to liquidate such obligations, and shall not make it impossible for the issuing component to reimburse the performing establishment; and (c) project orders may be issued for materiel, equipment, or for work or services in connection therewith, which are not fully financed to completion, provided the procurement thereof has been specifically exempted from the provisions of DoD Directive 7200.4 (reference (d)), by the Secretary of Defense.

10. Any component of a Military Department or Defense Agency having immediate and direct management responsibility for the programs (or any segment thereof) executed in whole or in part through the use of project orders as defined herein, is authorized to issue project orders. Such orders shall not be issued at a level higher than that of the component having such program responsibility.
11. Project orders shall be issued to a GOGO establishment of the Department of Defense for performance only on a reimbursable basis. They may not be made a subdivision of funds, like an allotment, nor subject to execution on a "citation-of-funds" basis (which involves citing the ordering component's funds on all documents covering charges to costs of the order). To the extent feasible, project orders issued to GOGO establishments of agencies outside the Department of Defense, should be performed also on a reimbursable basis.
12. Project orders may provide for reimbursement either on the basis of cost of performance or on a fixed-price basis predetermined in the light of cost estimates, subject to the provisions hereinafter stated in this Instruction (subsection VI. C).
13. Although the use of no specific form of project order is mandatory, a form substantially in the format of enclosure 1 should be used whenever practicable. However, any form, including a Military Interdepartmental Purchase Request (MIPR), DD Form 448, when accepted for performance in a GOGO establishment, is equally applicable under this Instruction. The foregoing does not preclude a Military Department or Defense Agency from prescribing a single form or forms for use within that department, provided they are used for all the purposes set forth in subsections IV.A. and B., and no other.
14. Amendments which increase the scope or value of a project order may be made at any time during the period for which the appropriation obligated by the project order is available for further obligation.
15. After an appropriation stated in a project order expires for obligation, such appropriation will be available for price increases. Amendments which serve to extend the scope of project order work must be financed from appropriations then current.

16. Subject to the provisions of paragraph VI. C.10, amendments to project orders which have the effect of partial or complete termination of such orders, shall provide for the inclusion of the costs of termination.
17. When an ordering component places an order on behalf of persons or agencies outside the Federal Government (including reimbursable transactions pursuant to the Foreign Military Sales Act of 1968) the ordering component will indicate this fact on the project order. In these instances the amount of unfunded costs incurred will be included in:
  - a. the amounts of orders issued to performing activities;
  - b. the amounts of billings made by the performing activity to the ordering activity;
  - c. the amounts of reimbursements by the ordering activity to the performing activity; and
  - d. the amounts of reimbursements obtained by the ordering activity from the non-Federal customer.

Unfunded costs are the cost of resources consumed which are not payable from the fund or appropriation initially financing the performance of the work or services.

B. Conditions of Performance

1. Project orders shall be performed after issue as expeditiously as possible according to the terms as accepted.
2. Performing components shall be responsible for promptly advising ordering components concerning changes in delivery schedules.
3. In the case of cost-reimbursement project orders only, performing components will provide ordering components with a summary of costs incurred to date and estimates of costs to complete the order. Such summary data, however, shall be provided only when specifically requested by the ordering component and in no event more frequently than monthly. No special report forms are authorized for this purpose.
4. Expiration dates of project orders may be extended, with the approval of the ordering component. Formal amendments shall be used when it is deemed necessary to extend expiration dates.

C. Basis of Reimbursements to Performing Components

1. Performing components shall be reimbursed for work covered by project orders upon the basis of costs incurred or on the basis of fixed prices in accordance with the conditions listed in paragraph 2, below.
2. A fixed-price basis should be used if all of the following conditions are present:
  - a. Work specifications are stable, specific and definite, and they are made part of the order (or incorporated by reference) for each item at the time the project order is accepted for performance on a fixed-price basis or amended for any changes in the scope of the work.
  - b. Where there is more than one item of work or services 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. Where the work to be performed is the subject of a work list (e.g., equipment overhaul), each entry on the work list shall be considered to be an item.
  - c. No substantial contingencies are included in the price, nor considered to be involved in performance, so that cost variations in performance can reasonably be expected to be minor.
  - d. There is a satisfactory system of cost estimating used as a basis for establishing fixed prices. Where cost standards are used in cost estimating for the purpose of pricing, they shall be adjusted for this purpose to include expected cost variances.
  - e. The same elements of cost are used in cost estimating and establishment of fixed prices as would be required to be used if reimbursements were upon the basis of cost accounts maintained as hereinafter required.
3. A fixed-price project order shall establish a firm price for purposes of reimbursement for the work or services ordered. This shall not preclude amendments to cover changes in scope of any item in the order.



4. The amount stated in a cost-reimbursement project order shall be a sound estimate of the cost to be incurred in performance of the work or services ordered. Such estimates shall be determined upon the basis of the specific work to be performed. The estimate of cost shall be the ceiling amount for purposes of reimbursement for the work or services ordered.
5. The performing component and the ordering component shall effect timely renegotiations for revisions of the ceiling amount of cost-reimbursement project orders. Such renegotiations should take place whenever cost performance indicates the need for adjustment of the ceiling amount upward or downward, but normally before cost of performance has exceeded 75 percent, as compared with the current ceiling amount. However, renegotiations should not be conducted where differences are minor; in such cases the differences should be absorbed by the performing establishment.
6. Cost-reimbursement project orders may be converted to a fixed-price basis, provided all of the conditions governing the use of fixed-price project orders are present (see paragraph VI. C.2), and provided the conversion is effected prior to incurring 50 percent of the total cost of the work, or prior to 50 percent of the period of performance whichever is more appropriate.
7. Reimbursable costs, in the case of Department of Defense components operating under an industrial fund, shall be determined in accordance with DoD Directive 7410.4 (reference (c)).
8. Where the performing component is not operating under an industrial fund, reimbursable costs will be determined in accordance with policy established for the performing activity, or where appropriate, pursuant to agreements negotiated prior to placement of project orders. Where the performing component is outside the Department of Defense, the basis for reimbursement shall be determined pursuant to agreements negotiated prior to placement of the orders.
9. Reimbursable costs may include the cost of machinery or equipment acquired specifically for the performance of a single project order, provided such costs are specifically approved in advance by the ordering component and the approval is incorporated into the terms of the project-order agreement or amendments thereto.

Where this is the case, the approved costs shall 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 component, and shall be disposed of in accordance with the ordering component's instructions.

10. Costs incurred in the termination of project orders shall be reimbursable to the performing component when such orders are terminated by the ordering component, to the extent such costs do not exceed the amount of the fixed price, or the current ceiling amount in the case of cost-reimbursement project orders. In determining termination costs for reimbursement purposes, the performing component shall be guided by the principles stated in this Instruction. When Military Departments and Defense Agencies cannot agree on the costs of terminations, the case will be referred to the Assistant Secretary of Defense (Comptroller) for settlement.
11. To the extent feasible, performing components initially financing performance of a project order under an allotment from an annual appropriation shall bill ordering components for work performed upon the basis of jobs completed or services rendered in accordance with the terms of the project order. However, 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 component to cover the accrued cost (and other direct obligations incurred, if desired) of performance to the end of the fiscal year under an uncompleted project order (inasmuch as the remainder of the cost will be required to be initially financed under an allotment from the next year's appropriation account). Reimbursement to industrial fund activities for work performed will normally be accomplished on a progress payment basis in accordance with DoD Directive 7410.4 (reference (c)).

D. Accounting for Cost of Performance

1. Project orders shall not be administered nor accounted for by performing components as separate subdivisions of appropriations or funds. The appropriation-type accounting for project orders will be performed by the ordering component in a manner similar to that performed for contracts.

2. The operations of performing components within the Department of Defense financed under industrial funds will be accounted for in accordance with DoL Directive 7410.4 (reference (c)).
3. Where the performing component is financed under an allotment from an appropriated fund, all costs incurred in performance of project orders received from components other than the allotter shall be financed initially under its allotment, subject to reimbursement from the appropriation or other accounts cited in the orders. The appropriation under which the project-order performance is to be initially financed, however, must be available for the same general purpose for which the project order is issued.
4. Where the performing component is financed under an allotment, reimbursements for project orders received may be anticipated as a source of obligational authority in order to finance performance of the work.
5. When project orders are reimbursable on the basis of cost of performance (i.e., cost-reimbursement project orders), a cost account for each order shall be maintained under the fund or allotment which finances the work, as a basis for determining the amount reimbursable. When reimbursement is on the basis of fixed prices, cost accounts by each specific order are not required.
6. Billings covering reimbursements shall provide costs by each item listed in the project order.
7. Reimbursements shall be effected in accordance with established procedures.

VII. EXEMPTIONS

Requests for exemptions shall be submitted to the Assistant Secretary of Defense (Comptroller), with appropriate justification.

VIII. EFFECTIVE DATE AND IMPLEMENTATION

- A. This Instruction is effective immediately.
- B. Appropriate instructions for the implementation of these

Continuation of

Continuation of VIII.B.

regulations shall be issued by the respective DoD Components within sixty (60) days of the effective date of this Instruction. Two copies of such instructions shall be submitted to the Assistant Secretary of Defense (Comptroller).

- C. All subsequent modifications, additions or deletions to instructions, issue pursuant to subsection C, above, involving changes in policy or basic procedures, shall be submitted to the Assistant Secretary of Defense (Comptroller).

*R.E. Moof*

Assistant Secretary of Defense  
(Comptroller)

Enclosure 1

Project Order Format

May 4, 71  
7220.1 (Encl 1)

PROJECT ORDER		1. <input type="checkbox"/> FIXED PRICE <input type="checkbox"/> COST REIMBURSEMENT	2. DATE
(See Reverse Side for Instructions for Issuing Project Order)			
3. ORDERING COMPONENT			4. PROJECT ORDER NO.
NAME		ADDRESS	
			5. AMENDMENT NO.
6. PERFORMING ESTABLISHMENT			
NAME		ADDRESS	
		STATION NUMBER	
7. DELIVERY INSTRUCTIONS			
PLACE		DATE	METHOD
8. DESCRIPTION OF WORK TO BE PERFORMED AND OTHER INSTRUCTIONS (If additional space is required, use Supplemental Data Section on reverse side hereof or attach additional sheets)			
9. a. ACCOUNTING CLASSIFICATION			b. AMOUNT
10. THIS ORDER IS PLACED IN ACCORDANCE WITH THE PROVISIONS OF 41 USC 23, AND DEPARTMENT OF DEFENSE DIRECTIVE 7220.1. WORK TO BE PERFORMED AND MATERIAL TO BE PROCURED PURSUANT TO THIS ORDER ARE PROPERLY CHARGEABLE TO THE APPROPRIATION OR OTHER ACCOUNTS INDICATED ABOVE UNTIL DAY - MONTH - YEAR THE EXPIRATION DATE OF THIS PROJECT ORDER. FUNDS IN THE AMOUNT INDICATED ABOVE HAVE BEEN COMMITTED AND WILL BE OBLIGATED UPON RECEIPT OF ACCEPTANCE COPY.			
TYPED NAME AND TITLE OF AUTHORIZING OFFICER			SIGNATURE
11. THE ABOVE TERMS AND CONDITIONS ARE SATISFACTORY AND ARE ACCEPTED.			
DATE ACCEPTED	TYPED NAME & TITLE OF ACCEPTING OFFICER		SIGNATURE

### INSTRUCTIONS

This form is intended for use by components of military departments in placing project orders with Government-owned and operated establishments within and outside the Department of Defense.

ITEM 1 - Check appropriate box indicating type of project order; i.e., fixed price or cost reimbursement.

ITEM 2 - Date of project order or amendment.

ITEM 3 - Name and address of ordering component.

ITEM 4 - Number assigned to project order by ordering component for control purposes.

ITEM 5 - Number assigned to project order amendment by ordering component for control purposes. Formal amendments shall be numbered consecutively.

ITEM 6 - Name, address, and station number of performing establishment.

ITEM 7 - Instructions for place, date and method of delivery, if applicable. If additional space is required, use Supplemental Data Section below.

ITEM 8 - Full description of the work ordered (*this may be incorporated by reference*) and such other instructions

as conditions of inspections, shipping, packing and marking, etc. Use Supplemental Data Section or attach additional sheets if necessary. Limitations, if any, applicable to the appropriations or other accounts relevant to this order are shown in the Supplemental Data Section below.

ITEM 9 - Insert the complete accounting classifications chargeable and the amount of the project order or amendment.

ITEM 10 - Insert in the spaces provided, the expiration date of the project order, the name, title and signature of officer or his authorized representative controlling or having responsibility for the administration of the funds cited on the project order or amendment. If authorizing officer is other than one having fiscal responsibility, the ordering department must have on file as support to the certificate, a written statement by such an officer substantiating the fiscal portion of the certificate.

ITEM 11 - The performing establishment shall indicate acceptance in this space. Duplicate, bearing acceptance date, name, title and signature of accepting officer shall be returned to the ordering component. If the performing establishment is unable to accept the project order, it shall return promptly the original project order form to the ordering office with appropriate explanation.

### SUPPLEMENTAL DATA SECTION

# DEPARTMENT OF DEFENSE

## DIRECTIVES SYSTEM TRANSMITTAL

NUMBER	DATE	DISTRIBUTION
7220.1 - Ch 1	December 4, 1972	7000 series

### ATTACHMENTS

Pages 1&2 and 5&6 to DoD Instruction 7220.1, May 4, 1971

### INSTRUCTIONS FOR RECIPIENTS

The following changes to DoD Instruction 7220.1, "Regulations Governing the Use of Project Orders," dated May 4, 1971 have been authorized:

#### PEN CHANGE

Enclosure 1, Item 10. first and second lines, change "Department of Defense Directive" to "Department of Defense Instruction".

The changed portion is underscored.

#### PAGE CHANGES

Remove: Pages 1&2 and 5&6

Insert: Attached replacement pages

Changes appear on pages 1 and 6 and are indicated by marginal asterisks.

#### EFFECTIVE DATE AND IMPLEMENTATION

The above changes are effective immediately. Two copies of implementing regulations shall be forwarded to the Assistant Secretary of Defense (Comptroller) within ninety days.

*Maurice W. Roche*

MAURICE W. ROCHE

Director, Correspondence and Directives Division  
OASD(Comptroller)

WHEN PRESCRIBED ACTION HAS BEEN TAKEN, THIS TRANSMITTAL SHOULD BE FILED WITH THE BASIC DOCUMENT

SD FORM 106-1  
1 MAR 62

PREVIOUS EDITIONS ARE OBSOLETE



NUMBER 7220.1

DATE May 4, 1971#

## Department of Defense Instruction <sup>ASD(C)</sup>

**SUBJECT** Regulations Governing the Use of Project Orders

- Refs.: (a) DoD Directive 7220.1, subject as above, February 16, 1970 (cancelled by DoD Transmittal 71-10, May 4, 1971)
- \* (b) DoD 7220.9-H, "Accounting, Guidance Handbook," authorized by \*
- \* DoD Instruction 7220.9, July 12, 1971 \*
- (c) DoD Directive 7410.4, "Regulations Governing Industrial Fund
- \* Operations," September 25, 1972 \*
- (d) DoD Directive 7200.4, "Full Funding of DoD Procurement Programs,"
- October 30, 1969
- (e) 41 U.S.C. 23; Title IV of the National Security Act of 1947, as amended; 10 U.S.C. 2202

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#First amendment (Ch 1, 12/4/72)



issued. (See paragraph VI. A.13 for provisions governing the use of a uniform project-order form.)

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7. GOGO establishments which are recipients of project orders must be substantially in a position to manufacture the materials, supplies and equipment, or equipped to render the work or services ordered. Subsidiary ordering (within the Government) and contracting (with commercial firms) pursuant to a project order are authorized, provided such subsidiary ordering and contracting are incident to and are for use in carrying out the purpose of the project order. In this connection, project orders must contemplate use of personal services and facilities (but may include use of other resources), on the part of the project-order recipient, substantially beyond those incident to contract procurement.
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\* \* \* \* \*
14. Amendments which increase the scope or value of a project order may be made at any time during the period for which the appropriation obligated by the project order is available for further obligation.
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