

# 49.606 Granting subcontract settlement authorization.

*Contracting officers shall* use the following format when granting subcontract settlement authorization:

Letter of Authorization

(a) Your request of \_\_\_\_ (date) is approved, and you are authorized, subject to the limitations of subsection 49.108-4 and those stated below, to settle, without further approval of the Government, all subcontracts and *purchase orders* terminated by you as a result of a Government contract being terminated or modified-

(1) For the convenience of the Government or

(2) Under any other circumstances that *may* require the Government to bear the cost of their settlement.

(b) This authorization does not extend to the disposition of Government-furnished material or articles completed but undelivered under the subcontract or *purchase order*, as these require screening and approval of disposal actions by the Government, except that allocable completed articles *may* be disposed of without Government approval or screening if the total amount (at subcontract price) when added to the amount of settlement (as computed below) does not exceed \$ \_\_\_\_ [*insert limit of authorization being granted*].

(c) This authorization is subject to the following conditions and requirements:

(1) The amount of the subcontract termination settlement does not exceed \$ \_\_\_\_ [*insert limit of authorization being granted*], computed as follows:

(i) Do not deduct advance or partial payments or credits for retention or other disposal of *termination inventory* allocated to the *settlement proposal*.

(ii) Deduct amounts payable for completed articles or work at the contract price or for the settlement of termination proposals of subcontractors (except those settlements that have not been approved by the Government).

(2) Any *termination inventory* involved has been disposed of under subsection 49.108-4, except that screening and Government approval of *scrap* and salvage determinations are not required.

(3) The *Contracting Officer may* incorporate into each Notice of Termination specific instructions about the disposition of specific items of *termination inventory*, or the *Contracting Officer may*, at any time before final settlement, issue specific instructions. These instructions will not affect any disposal action taken by you or your subcontractors before their receipt.

(4) The settlements made by you with your subcontractors and suppliers under this authorization, including sales, retention, or other dispositions of property involved in making these settlements, are reimbursable under part 49 and the Termination clause of the contract, and do not require approval of the *Contracting Officer*.

(5) Any number of separate settlements of \$\_\_\_\_\_ [*insert limit of authorization granted*] or less may be made with a single subcontractor. *Settlement proposals* that would normally be included in a single proposal; *e.g.*, those based on a series of separate orders for the same item under one contract, *should* be consolidated whenever possible and *shall* not be divided to bring them within the authorization.

(6) This authorization does not apply if a subcontractor or supplier is affiliated with you. For this purpose, you *should* consider a contractor to be affiliated with you if you are under common control or if there is any common interest between you by reason of stock ownership, or otherwise, that is sufficient to create a reasonable doubt that the bargaining between you is completely at arm's length.

(7) A representative of this office will, from time to time, review the methods used in negotiating settlements with your subcontractors and will make a selective examination of the settlements made by you. If the review indicates that you are not adequately protecting the Government's interest, this delegation will be revoked.

(End of letter)

**Parent topic:** [Subpart 49.6 - Contract Termination Forms and Formats](#)