



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

DEC 01 2016

MEMORANDUM FOR: COMMANDER, UNITED STATES SPECIAL OPERATIONS  
COMMAND (ATTN: ACQUISITION EXECUTIVE)  
COMMANDER, UNITED STATES TRANSPORTATION  
COMMAND (ATTN: ACQUISITION EXECUTIVE)  
DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT)  
DEPUTY ASSISTANT SECRETARY OF THE NAVY  
(ACQUISITION AND PROCUREMENT)  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING)  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Guidance on Evaluation of Risk in Negotiating Contract Profit or Fee

This guidance is intended to reinforce existing policy to evaluate performance and contract type risk using the structured approach that the DoD Weighted Guidelines (DFARS 215.404-71) provides. Over the past few years, the DoDIG has performed several audits related to profit paid to prime contractors for work performed by a DoD depot (organic) workforce as a subcontractor. The DoDIG found that contracting officers were not adequately assessing the costs associated with DoD depot performed work at lower risk and in turn were not negotiating reduced profit and fees.

DoD contracting officers are reminded of the evaluation criteria in DFARS 215.404-71 in the DoD Weighted Guidelines for management/cost control. This criteria emphasizes the contractor's value added activities and the contractor's actions to influence the contract outcome. Contracting officers should consider the impact of the prime contractor's management/cost control efforts and the risk the contractor is assuming in the performance of the specific contract actions contemplated. For example, when DoD repair and maintenance depots or other organic Government activities perform as a subcontractor to DoD prime contractors, the contracting officer should carefully and thoroughly consider the prime contractor's degree of risk in fulfilling contract requirements, just as they would when making determinations of risk when using private subcontractors. When the contract includes terms and conditions that are more favorable to a prime contractor, such as permitting the prime contractor to submit a request for equitable adjustment in the event of non-performance by the DoD workforce, that should be factored into the analysis regarding the appropriate amount of fee or profit to be negotiated. Profit or fee is an important aspect of contractor compensation and should fairly reflect the contractor's degree of risk in fulfilling contract requirements.

Claire M. Grady  
Director, Defense Procurement  
and Acquisition Policy