

# DFARS Procedures, Guidance, and Information

## PGI 204—Administrative Matters

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*(Revised September 6, 2012)*

### PGI 204.70—UNIFORM PROCUREMENT INSTRUMENT IDENTIFICATION NUMBERS

#### PGI 204.7001 Policy.

(c)(i) Continued contracts are issued solely for administrative reasons and do not constitute a new procurement. When issuing a continued contract, the contracting officer shall—

(A) Obtain approval at a level above the contracting officer before issuance of the continued contract;

(B) Assign a procurement instrument identification (PII) number to the continued contract that is different from the PII number assigned to the predecessor contract, using the uniform PII numbering system prescribed in DFARS [204.7002](#), [204.7003](#), and [204.7004](#). The predecessor contract will retain the PII number originally assigned to it;

(C) Find a clear breaking point (for example, between issuance of orders, exercise of options, or establishment of a new line of accounting) to issue the continued contract;

(D) Clearly segregate contractual requirements for purposes of Government inspection, acceptance, payment, and closeout. Supplies already delivered and services already performed under the predecessor contract will remain under the predecessor contract. This will allow the predecessor contract to be closed out when all inspection, acceptance, payment, and other closeout issues associated with supplies delivered and services performed under the predecessor contract are complete;

(E) Include in the continued contract all terms and conditions of the predecessor contract that pertain to the supplies and services yet to be delivered or performed. At the time it is issued, the continued contract may not in any way alter the prices or terms and conditions established in the predecessor contract;

(F) Not evade competition, expand the scope of work, or extend the period of performance beyond that of the predecessor contract;

(G) Provide advance notice to the contractor before issuance of the continued contract, to include the PII number and the effective date of the continued contract;

(H) Modify the predecessor contract to—

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(1) Reflect any necessary administrative changes such as transfer of Government property, and make the Government property accountable under the continued contract;

(2) Clearly state that future performance (e.g., issuance of orders or exercise of options) will be accomplished under the continued contract; and

(3) Specify the administrative reason for issuing the continued contract; and

(l) Reference the predecessor contract PII number on the face page of the continued contract to ensure traceability.

(ii) Sample language for the administrative modification to the predecessor contract is provided below:

“This modification is issued for administrative purposes to facilitate continued contract performance due to *[state the reason for assigning an additional PII number]*. This modification is authorized in accordance with DFARS [204.7001\(c\)](#).

Supplies and services already acquired under this contract number shall remain solely under this contract number for purposes of Government inspection, acceptance, payment, and closeout. All future *[delivery orders]* *[task orders]* *[options exercised]* will be accomplished under continued contract XXXXXXXX.”

### PGI 204.7005 Order code monitors.

(b) Contracting activities submit requests for assignment of or changes in two-character order codes to their respective monitors in accordance with department/agency procedures.

(1) Order code monitors—

(i) Approve requests for additions, deletions, or changes; and

(ii) Provide notification of additions, deletions, or changes to Defense Procurement and Acquisition Policy, Program Development and Implementation (OUSD(AT&L)/DPAP(PDI)), 3060 Defense Pentagon, Washington, DC 20301-3060 or email at [osdcallordercodes@osd.mil](mailto:osdcallordercodes@osd.mil).

(2) Order code monitors are—

ARMY

Office of the Deputy Assistant  
Secretary of the Army  
(Procurement)  
Attn: SAAL-ZP (RM 2E520)

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	103 Army Pentagon Washington, DC 20310-0103
NAVY AND MARINE CORPS	Office of the Assistant Secretary of the Navy (RD&A) 1000 Navy Pentagon, Room BF992 Washington, DC 20350-1000
AIR FORCE	SAF/AQCI 1060 Air Force Pentagon Washington, DC 20330-1060
DEFENSE LOGISTICS AGENCY	Defense Logistics Agency DLA Acquisition Policy and Systems Division (J71) John J. Kingman Road Fort Belvoir, VA 22060-6221
OTHER DEFENSE AGENCIES	Defense Procurement and Acquisition Policy Attn: Program Development and Implementation 3060 Defense Pentagon Washington, DC 20301-3060 or email <a href="mailto:osdcallordercodes@osd.mil">osdcallordercodes@osd.mil</a>

(3) Order code assignments can be found at  
[http://www.acq.osd.mil/dpap/dars/order\\_code\\_assignments.html](http://www.acq.osd.mil/dpap/dars/order_code_assignments.html).

### **PGI 204.7006 Cross reference to Federal Procurement Data System.**

DPAP policy letter dated July 8, 2010, subject: Contract Indexing Standard (viewable [here](#)) provides detailed guidance and a matrix on mapping PII and supplementary PII numbers stored in the Electronic Document Access system to data elements reported in the Federal Procurement Data System. The attachment for this DPAP policy is provided in the following matrices, which should be used as a cross reference between terms in the DFARS and the Federal Procurement Data System.

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<b>ELEMENTS NEEDED TO IDENTIFY A DEPARTMENT OF DEFENSE PROCUREMENT ACTION</b>				
<b>Procurement Instrument Action Type</b>	<b>Reference Procurement Instrument (Reference Use Only)</b>	<b>Required as shown below to uniquely identify the action.</b>		
		<b>Procurement Instrument Identification Number (aka Contract Number)</b>	<b>Order Number</b>	<b>Modification Number</b>
BPA or Order under a Schedule or other non-DoD Instrument	E	A		
Order against a BPA under a Schedule	E	A	B	
DoD Stand Alone Contract, Purchase Order, BOA, BPA or other instrument		A		
Order against a DoD Stand Alone Contract, BOA, BPA or other instrument		A	B	
Modification to a BPA or Order under a Schedule or other non-DoD Instrument	E	A		C
Modification to an Order against a BPA under a Schedule	E	A	B	D
Modification to a DoD Stand Alone Contract, Purchase Order, BOA, BPA or other instrument		A		C
Modification to an Order against a DoD Stand Alone Contract, BOA, or BPA		A	B	D

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STRUCTURE OF REQUIRED IDENTIFIERS				
Key and Description		Format		
<b>A - DoD Procurement Instrument Identification Number (PIIN)</b>	<b>Consists of concatenation of following four fields:</b>			
	Enterprise Identifier - DODAAC of contracting office	Fiscal Year in which award is made	Procurement Instrument Type Code	Serialized Identifier
	Six Alphanumeric excluding 'I' and 'O'	2 Numeric	1 Alpha (list)	Four Alphanumeric excluding 'I' and 'O'. '0000' is not an acceptable value.
<b>B - DoD Order Number (Supplementary Procurement Instrument Identification Number (SPIIN))</b>	Four Alphanumeric excluding 'I' and 'O', 'A' and 'P' prohibited in first position. '0000' is not an acceptable value.			
<b>C - DoD Procurement Instrument Modification Identifier (Supplementary Procurement Instrument Identification Number (SPIIN))</b>	Six Alphanumeric beginning with 'A' or 'P', excluding 'I' and 'O'. 'P00000' and 'A00000' are not acceptable values			
<b>D - DoD Order Modification Identifier (Supplementary Procurement Instrument Identification Number (SPIIN))</b>	Two Alphanumeric excluding 'I' and 'O'. '00' is not an acceptable value.			
<b>E -- Non DoD Procurement Instrument Number</b>	4 to 50 Alphanumeric			

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FPDS Crosswalk	FPDS FIELD NAME			
	REF_IDV_PIID	REF_IDV_MODIFICATION_NUMBER	PIID	MODIFICATION_NUMBER
BPA or Order under a Schedule or other non-DoD Instrument	E	Use "0"	A	Use "0"
Order against a BPA under a Schedule	A	Use "0"	B*	Use "0"
DoD Stand Alone Contract, Purchase Order, BOA, BPA or other instrument			A	Use "0"
Order against a DoD Stand Alone Contract, BOA, BPA or other instrument	A	Use "0"	B*	Use "0"
Modification to a BPA or Order under a Schedule or other non-DoD Instrument			A	C
Modification to an Order against a BPA under a Schedule	A	Use "0"	B*	D*
Modification to a DoD Stand Alone Contract, Purchase Order, BOA, BPA or other instrument			A	C
Modification to an Order against a DoD Stand Alone Contract, BOA, or BPA	A	Use "0"	B*	D*
* Note that FPDS strips leading zeroes, so that modification 02 to order 0024 is shown as modification 2 to order 24				

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(Revised September 6, 2012)

### PGI 204.71—UNIFORM CONTRACT LINE ITEM NUMBERING SYSTEM

#### PGI 204.7103 Contract line items.

##### PGI 204.7103-2 Numbering procedures.

(a) Contract line items shall consist of four numeric digits 0001 through 9999. Do not use numbers beyond 9999. Within a given contract, the item numbers shall be sequential but need not be consecutive.

(b) The contract line item number shall be the same as the solicitation line item number unless there is a valid reason for using different numbers.

(c) Once a contract line item number has been assigned, it shall not be assigned to another, different, contract line item in the same contract.

#### PGI 204.7104 Contract subline items.

##### PGI 204.7104-2 Numbering procedures.

(a) Number subline items by adding either two numeric characters or two alpha characters to the basic contract line item number.

(1) *Information subline item numbers.* Use numeric characters only for information subline items, running 01 through 99. Do not use spaces or special characters to separate the subline item number from the contract line item number that is its root. For example, if the contract line item number is 0001, the first three subline items would be 000101, 000102, and 000103. Do not use a designation more than once within a contract line item.

(2) *Separately identified subline items.* Use alpha characters only for separately identified subline items, running AA through ZZ. Do not use spaces or special characters to separate the subline item number from the contract line item number that is its root. For example, if the contract line item number is 0001, the first three subline items would be 0001AA, 0001AB, and 0001AC.

(i) Do not use the letters I or O as alpha characters.

(ii) Use all 24 available alpha characters in the second position before selecting a different alpha character for the first position. For example, AA, AB, AC, through AZ before beginning BA, BB, and BC.

(b) Within a given contract line item, the subline item numbers shall be sequential but

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need not be consecutive.

(c) Exhibits may be used as an alternative to setting forth in the schedule a long list of contract subline items. If exhibits are used, create a contract subline item citing the exhibit's identifier. See DFARS [204.7105](#).

(d) If a contract line item involves ancillary functions, like packaging and handling, transportation, payment of state or local taxes, or use of reusable containers, and these functions are normally performed by the contractor and the contractor is normally entitled to reimbursement for performing these functions, do not establish a separate subline item solely to account for these functions. However, do identify the functions in the contract schedule. If an offeror separately prices these functions, the contracting officer may establish separate subline items for the functions; however, the separate subline items must conform to the requirements of DFARS [204.7104-1](#).

(e) The following examples illustrate subline items numbering—

(1) Subline items structured to identify destinations for identical items, identically priced (delivery schedule shall be established for each subline item, not the contract line item).

ITEM NO.	SUPPLIES/SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	NSN 1615-00-591-6620 Shim, Aluminum Alloy,... Appl, Rotor, Helicopter PRON A1-9-63821-M1- M1 ACRN:AA				
0001AA	A3168R-9030-4025 A2537M IPD: 2 RDD: 334 PROJ: 501	10	EA	\$100.00	\$1,000.00
0001AB	A3168R-9030-4026 A51AXB M IPD: 2 RDD: 325 PROJ: 502	10	EA	\$100.00	\$1,000.00
0001AC	A3168R-9030-4027 A67KBCM IPD: 2 RDD: 349 PROJ: 503	15	EA	\$100.00	\$1,500.00

(2) Subline items structured to identify destinations for identical items, not identically priced (delivery schedule shall be established for each subline item, not the contract line item).

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ITEM NO.	SUPPLIES/SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	NSN 1615-00-591-6620 Shim, Aluminum Alloy,...				
0001AA	Appl, Rotor, Helicopter PRON A1-9-63821-M1- M1 ACRN:AA A3168R-9030-4025	10	EA	\$100.00	\$1,000.00
0001AB	A2537M IPD: 2 RDD: 334 PROJ: 501 A3168R-9030-4026	20	EA	\$99.00	\$1,980.00
0001AC	A51AXB M IPD: 2 RDD: 325 PROJ: 502 A3168R-9030-4027	30	EA	\$98.00	\$2,940.00
	A67KBCM IPD: 2 RDD: 349 PROJ: 503				

NOTE: Difference in prices for identical items is due to separate destinations for FOB destination delivery.

(3) Subline items structured to identify different sizes of an item that are identically priced (delivery schedule shall be established for each subline item, not the contract line item).

ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0013	Boots Insulated, Cold Weather White, Type II, Class 1		PR	\$38.35	\$13,422.50
0013AA	8430-00-655-5541 Size 5N	50			
0013AB	8430-00-655-5544 Size 8N	70			
0013AC	8430-00-655-5551 Size 9N	30			
0013AD	8430-00-655-5535 Size 9R	200			

NOTE: Unit price and total amount shown at line item level rather than at subline item level.

(4) Subline items structured to identify different sizes of an item that are not identically priced (delivery schedule shall be established for each subline item, not the contract line item).

ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
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0002	Body Armor Ground Troops Variable Type Small Arms, Fragmentation Protective Nylon Felt Vest, Front and Back Plates, Ceramic Plate, Type I				
0002AA	First Article	1	LO	NSP	
0002AB	8470-00-141-0935 Medium Regular	1936	SE	\$331.77	\$642,306.72
0002AC	8470-00-141-0936 Large Regular	625	SE	\$355.77	\$222,356.25
0002AD	8470-00-141-0937, Medium Long	1237	SE	\$346.77	\$428,954.49
0002AE	8470-00-141-0938, Large Long	804	SE	\$365.77	\$294,079.08

(5) Subline items structured to provide the capability for relating subordinate separately priced packaging costs to the overall contract line item. (Separate delivery schedules shall be established for the subline item identifying the contractor's product and for the subline item identifying packaging. No schedule will be established for the contract line item.)

ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	6105-00-635-6568 50380 Ref No 63504-WZ Armature Motor ACRN: AA				
0001AA	6105-00-635-6568 50380 Ref No 63504-WZ Armature Motor ACRN: AA	2	EA	\$2,895.87	\$5,791.74
0001AB	Packaging ACRN:AA	2	EA	\$289.58	\$579.16

(6) Subline items structured to identify different accounting classifications for identical items (delivery schedule shall be established for each subline item, not the contract line item).

AJ: 17X150518350315069100000192B00000000000000000000  
 AK: 17X150518370317569100000192B00000000000000000000

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AL: 17X150519350314369100000192B000000000000000000

ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0002	Pulse Decoder KY-312/A5Q-19		EA	\$3,037.40	
0002AA	Pulse Decoder KY-312/A5Q-19 ACRN: AJ	2			\$6,074.80
0002AB	Pulse Decoder KY-312/A5Q-19 ACRN: AK	6			\$18,224.40
0002AC	Pulse Decoder KY-312/A5Q-19 ACRN: AL	2			\$6,074.80

NOTE: Unit price may be shown at line item level and total amounts shown at subline item level.

(7) Informational subline items established to identify multiple accounting classification citations assigned to a single contract line item.

ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	Air Vehicle 000101 ACRN:AA \$3,300,000 000102 ACRN:AB \$2,000,000 000103 ACRN:AC \$1,400,000	1	EA	\$6,700,000	\$6,700,000

(8) Subline items structured to identify parts of an assembly (delivery schedule and price shall be established for each identified part at the subline item level, not for the assembly at the contract line item level).

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ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0003	Automatic Degausing System Consisting of: (2 ea @ \$52,061; \$104,122 total)				
0003AA	Switchboard	2	EA	\$52,061.00	\$104,122.00
0003AB	Remote Control Panel	2	EA	NSP	
0003AC	Power Supply (M Coil) SSM Type 145 Amps, 220 V DC)	2	EA	NSP	
*	* * *			*	*
0003AF	Power Supply (A Coil) SSM Type (118 Amps, 220 V DC)	2	EA	NSP	

(9) Subline items structured to identify parts of a kit (delivery schedule and price shall be established for each identified part at the subline item level, not for the kit at the contract line item level).

ITEM NO.	SUPPLIES/ SERVICE	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0031	Conversion Kit to Convert Torpedo MK 45 Mod 0 to Torpedo MK 45 Mod 1 (50 Kt @ \$10,868.52; \$543,426 total)				
0031AA	Integrator Assy LD 620106	50	EA	\$10,868.52	\$543,426.00
0031AB	Pulse Generator Assy LD 587569	50	EA	NSP	
0031AC	Drive Shaft Assy LD 587559	50	EA	NSP	
*	* * *			*	
0031BF	Actual Panel Assy LD 542924	50	EA	NSP	

NOTE: In this example, the prices of subline items 0031AB through 0031BF are included in the Integrator Assembly.

**PGI 204.7105 Contract exhibits and attachments.**

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### (a) *Use of exhibits.*

(1) Exhibits may be used instead of putting a long list of contract line items or subline items in the contract schedule. Exhibits are particularly useful in buying spare parts.

(2) When using exhibits, establish a contract line or subline item and refer to the exhibit.

(3) Identify exhibits individually.

(4) Each exhibit shall apply to only one contract line item or subline item.

(5) More than one exhibit may apply to a single contract line item.

(6) Data items on a DD Form 1423, Contract Data Requirements List, may be either separately priced or not separately priced.

(i) Separately priced. When data are separately priced, enter the price in Section B of the contract.

(ii) Not separately priced. Include prices in a priced contract line item or subline item.

(7) The contracting officer may append attachments to exhibits, as long as the attachment does not identify a deliverable requirement that has not been established by a contract line item or subline item or exhibit line item.

(8) Include exhibit line items and associated information in the electronically distributed contract documents identified in [PGI 204.201\(3\)\(i\)\(A\)](#) and (B).

### (b) *Numbering exhibits and attachments.*

(1) Use alpha characters to identify exhibits. The alpha characters shall be either single or double capital letters. Do not use the letters I or O.

(2) Once an identifier has been assigned to an exhibit, do not use it on another exhibit in the same contract.

(3) The identifier shall always appear in the first or first and second positions of all applicable exhibit line item numbers.

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(4) If the exhibit has more than one page, cite the procurement instrument identification number, exhibit identifier, and applicable contract line or subline item number on each page.

(5) Use numbers to identify attachments.

(c) *Numbering exhibit line items.*

(1) Criteria for establishing. The criteria for establishing exhibit line items are the same as those for establishing contract line items (see DFARS [204.7103](#)).

(2) Procedures for numbering.

(i) Number items in an exhibit in a manner similar to contract line items.

(ii) Number line items using a four-position number.

(A) The first position or the first and second position contain the exhibit identifier.

(B) The third and fourth positions contain the alpha or numeric character serial numbers assigned to the line item when using a double letter exhibit identifier. The second, third and fourth positions contain the alpha or numeric character serial numbers assigned to the line item when using a single letter exhibit identifier.

(iii) Exhibit line item numbers shall be sequential within the exhibit.

(3) Examples.

(i) Two-position serial number for double letter exhibit identifier.

<u>Cumulative No. of Line Items</u>	<u>Serial Number Sequence</u>
1-33	01 thru 09, then 0A thru 0Z, then
34-67	10 thru 19, then 1A thru 1Z, then
68-101	20 thru 29, then 2A thru 2Z, then
102-135	30 thru 39, then 3A thru 3Z, then
136-169	40 thru 49, then 4A thru 4Z, then
170-203	50 thru 59, then 5A thru 5Z, then

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204-237	60 thru 69, then 6A thru 6Z, then
238-271	70 thru 79, then 7A thru 7Z, then
272-305	80 thru 89, then 8A thru 8Z, then
306-339	90 thru 99, then 9A thru 9Z, then
340-373	A0 thru A9, then AA thru AZ, then
374-407	B0 thru B9, then BA thru BZ, then
408-441	C0 thru C9, then CA thru CZ, then
442-475	D0 thru D9, then DA thru DZ, then
476-509	E0 thru E9, then EA thru EZ, then
510-543	F0 thru F9, then FA thru FZ, then
544-577	G0 thru G9, then GA thru GZ, then
578-611	H0 thru H9, then HA thru HZ, then
612-645	J0 thru J9, then JA thru JZ, then
646-679	K0 thru K9, then KA thru KZ, then
680-713	L0 thru L9, then LA thru LZ, then
714-747	M0 thru M9, then MA thru MZ, then
748-781	N0 thru N9, then NA thru NZ, then
782-815	P0 thru P9, then PA thru PZ, then
816-849	Q0 thru Q9, then QA thru QZ, then
850-883	R0 thru R9, then RA thru RZ, then
884-917	S0 thru S9, then SA thru SZ, then
918-951	T0 thru T9, then TA thru TZ, then

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952-985	U0 thru U9, then UA thru UZ, then
986-1019	V0 thru V9, then VA thru VZ, then
1020-1053	W0 thru W9, then WA thru WZ, then
1054-1087	X0 thru X9, then XA thru XZ, then
1088-1121	Y0 thru Y9, then YA thru YZ, then
1122-1155	Z0 thru Z9, then ZA thru ZZ

(ii) Three-position numbers.

<u>Cumulative No. of Line Items</u>	<u>Serial Number Sequence</u>
1-33	01 thru 009, then 00A thru 00Z, then
34-67	010 thru 019, then 01A thru 01Z, then
68-101	020 thru 029, then 02A thru 02Z, then
102-135	030 thru 039, then 03A thru 03Z and
136-305	so on to
306-339	090 thru 099, then 09A thru 09Z, then
340-373	0A0 thru 0A9, then 0AA thru 0AZ, then
374-407	0B0 thru 0B9, then 0BB thru 0BZ, then
408-441	0C0 thru 0C9, then 0CA thru 0CZ, and
442-1121	so on to
1122-1155	0Z0 thru 0Z9, then 0ZA thru 0ZZ, then
1156-1189	100 thru 109, then 10A thru 10Z, then
1190-1223	110 thru 119, then 11A thru 11Z, then

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1224-1257	120 thru 129, then 12A thru 12Z, and
1258-1461	so on to
1462-1495	190 thru 199, then 19A thru 19Z, then
1496-1529	1A0 thru 1A9, then 1AA thru 1AZ, then
1530-1563	1B0 thru 1B9, then 1BA thru 1BZ, and
1564-2277	so on to
2278-2311	1Z0 thru 1Z9, then 1ZA thru 1ZB, then
2312-2345	200 thru 109, then 10A thru 10Z, then
2346-2379	210 thru 219, then 21A thru 21Z, then
2380-2413	220 thru 229, then 22A thru 22Z, and
2414-2617	so on to
2618-2651	290 thru 299, then 29A thru 29Z, then
2652-2685	2A0 thru 2A9, then 2AA thru 2AZ, then
2686-2719	2B0 thru 2B9, then 2BA thru 2BZ, and
2720-3433	so on to
3434-3467	2Z0 thru 2Z9, then 2ZA thru 2ZZ, then
3468-3501	300 thru 309, then 30Z thru 30Z, and
3502-10403	so on to
10404-10437	900 thru 909, then 90A thru 90Z, then
10438-10471	910 thru 919, then 91A thru 91Z, and
10472-10709	so on to
10710-10743	990 thru 999, then 99A thru 99Z, then

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10744-10777	9A0 thru 9A9, then 9AA thru 9AZ, then
10778-10811	9B0 thru 9B9, then 9BA thru 9BZ, and
10812-11525	so on to
11526-11559	9Z0 thru 9Z9, then 9ZA thru 9ZZ

### **PGI 204.7107 Contract accounting classification reference number (ACRN) and agency accounting identifier (AAI).**

#### *(a) Establishing the contract ACRN.*

(1) The contracting office issuing the contract is responsible for assigning ACRNs. This authority shall not be delegated. If more than one office will use the contract (e.g., ordering officers, other contracting officers), the contract must contain instructions for assigning ACRNs.

(2) ACRNs shall be established in accordance with the following guidelines:

(i) Do not use the letters I and O.

(ii) In no case shall an ACRN apply to more than one accounting classification citation, nor shall more than one ACRN be assigned to one accounting classification citation.

(b) *Establishing an AAI.* An AAI, as detailed <http://www.acq.osd.mil/dpap/policy/policyvault/USA002246-09-DPAP.pdf>, is a six-digit data element that identifies a system in which accounting for specific funds is performed. The funding office will provide to the contracting office the AAI associated with the funding for each line item.

(c) *Capturing accounting and appropriations data in procurement.* Procurement instruments shall identify the funding used for the effort in one of two ways.

(1) In legacy system environments where the contracting and accounting processes are not sufficiently integrated to ensure use of the Procurement Instrument Identification Numbers (PIINs) (see DFARS [204.70](#)) and line item numbers as common keys, the contract shall include the accounting and appropriations data and ACRN as follows:

(i) Show the ACRN as a detached prefix to the accounting classification citation in the accounting and appropriations data block or, if there are too many accounting classification citations to fit reasonably in that block, in section G (Contract Administration Data).

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(ii) ACRNs need not prefix accounting classification citations if the accounting classification citations are present in the contract only for the transportation officer to cite to Government bills of lading.

(iii) If the contracting officer is making a modification to a contract and using the same accounting classification citations, which have had ACRNs assigned to them, the modification need cite only the ACRNs in the accounting and appropriations data block or on the continuation sheets.

(iv) *Showing the ACRN in the contract.* If there is more than one ACRN in a contract, all the ACRNs will appear in several places in the schedule (e.g., ACRN: AA).

(A) *Ship-to/mark-for block.* Show the ACRN beside the identity code of each activity in the ship-to/mark-for block unless only one accounting classification citation applies to a line item or subline item. Only one ACRN may be assigned to the same ship-to/mark-for within the same contract line or subline item number unless multiple accounting classification citations apply to a single nonseverable deliverable unit such that the item cannot be related to an individual accounting classification citation.

(B) *Supplies/services column.*

(1) If only one accounting classification citation applies to a line item or a subline item, the ACRN shall be shown in the supplies/services column near the item description.

(2) If more than one accounting classification citation applies to a single contract line item, identify each assigned ACRN and the amount of associated funds using informational subline items (see DFARS [204.7104-1\(a\)](#)).

(2) The contract shall include AAls and ACRNs in system environments where the accounting systems are able to use PIINs and line item numbers as common keys to enable traceability of funding to contract actions. Include AAls and ACRNs as follows:

(i) *Showing the ACRN in the contract.* If there is more than one ACRN in a contract, all the ACRNs will appear in several places in the schedule (e.g., ACRN: AA).

(A) *Ship-to/mark-for block.* Show the ACRN beside the identity code of each activity in the ship-to/mark-for block unless only one

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accounting classification citation applies to a line item or subline item. Only one ACRN may be assigned to the same ship-to/mark-for within the same contract line or subline item number unless multiple accounting classification citations apply to a single nonseverable deliverable unit such that the item cannot be related to an individual accounting classification citation.

(B) *Supplies/services column.*

(1) If only one accounting classification citation applies to a line item or a subline item, the ACRN shall be shown in the supplies/services column near the item description.

(2) If more than one accounting classification citation applies to a single contract line item, identify each assigned ACRN and the amount of associated funds using informational subline items (see DFARS [204.7104-1\(a\)](#)).

(ii) *Showing the AAI in the contract.* If there is more than one AAI in a contract, show the AAI in the supplies/services column of the Schedule next to the ACRN. A sample showing the AAI is as follows:

ITEM	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	MILSTRIP: N0001906P7PM230				
	PURCHASE REQUEST NUMBER: 0010144885-0001				
	ACRN: AA				
	BRU-32 B/A	23	Each	\$22,206.00	\$510,738.00
	Ejector Bomb Rack				
	MILSTRIP: N0001906P7PM230				
	PURCHASE REQUEST NUMBER: 0010144885-0001				
	ACRN: AA				
	AAI: 050119				

### PGI 204.7108 Payment instructions.

(a) *Scope.* This section applies to contracts and any separately priced orders that--

(1) Include contract line items that are funded by multiple accounting classification citations for which a contract line item or items are not broken out into separately identifiable subline items (informational subline items are not separately identifiable subline items);

(2) Contain cost-reimbursement or time-and-materials/labor-hour line items; or

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(3) Authorize financing payments.

(b) For contracts and orders covered by this subpart, the contracting officer shall insert numbered instructions in Section G (Contract Administration Data), to permit the paying office to charge the accounting classification citations assigned to that contract line item (see DFARS [204.7104-1\(a\)](#)) in a manner that reflects the performance of work on the contract. When incorporating clauses by reference in Section G, cite the clause number, title, and date. If additional accounting classification citations are subsequently added, the payment instructions must be modified to include the additional accounting classification citations. Also, contracting officers shall not issue modifications that would create retroactive changes to payment instructions. All payment instruction changes shall be effective as of the date of the modification. When some, but not all, of the fixed price line items in a contract are subject to contract financing payments, the contracting officer shall clearly identify to which line items the payment clause(s) included in Section I apply.

(c) Payment instructions—

(1) Shall provide a methodology for the payment office to assign payments to the appropriate accounting classification citation(s), based on anticipated contract work performance;

(2) Shall be consistent with the reasons for the establishment of separate contract line items;

(3) Shall be selected from those provided in paragraph (d) of this section;

(4) Shall be revised to address the impact of changes to contract funding or significant disparities between existing instructions and actual contract performance;

(5) Shall state at what level (contract, contract line, subline, exhibit line, or ACRN) the payment instructions should be applied;

(6) Shall not be mixed within a level by contract type. For example, if the instructions apply at the contract level, there can be only one payment instruction for each contract type. If the instructions apply at the contract line or subline level, there can only be one payment instruction per contract line or subline item;

(7) For contracts or orders that contain a combination of fixed-price, cost-reimbursement, and/or time-and-materials/labor-hour line items, shall at a minimum include separate instructions for each contract type of contract line item (e.g., contract-wide proration for fixed-price line items and contract-wide ACRN level for cost-reimbursement line items);

(8) For contracts or orders that contain foreign military sales requirements, shall

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include instructions for distribution of the contract financing payments to each country's account; and

(9) Shall use one of the standard payment instructions in paragraphs (d)(7) through (11) of this section unless the contracting officer documents in the contract file that there are significant benefits of requiring contractor identification of the contract line item on the payment request.

(d) The numbered payment instructions ((d)(1) through (12)) below correspond to the automated payment instructions in the supporting systems; therefore, care should be exercised when identifying the numbered instructions below in Section G of the contract. Include either one contract-wide instruction or one or more line item specific instructions. The contracting officer shall not use a combination of contract-wide and line item specific instructions.

(1) *Line item specific: single funding.* If there is only one source of funding for the contract line item (i.e., one ACRN), insert the following:

252.204-0001 Line Item Specific: Single Funding. (SEP 2009)

The payment office shall make payment using the ACRN funding of the line item being billed.

(2) *Line item specific: sequential ACRN order.* If there is more than one ACRN within a contract line item (i.e., informational subline items contain separate ACRNs), and the contracting officer intends funds to be liquidated in ACRN order, insert the following:

252.204-0002 Line Item Specific: Sequential ACRN Order. (SEP 2009)

The payment office shall make payment in sequential ACRN order within the line item, exhausting all funds in the previous ACRN before paying from the next ACRN using the following sequential order: Alpha/Alpha; Alpha/numeric; numeric/alpha; and numeric/numeric.

(3) *Line item specific: contracting officer specified ACRN order.* If there is more than one ACRN within a contract line item, (i.e. informational sub-line items contain separate ACRNs), and the contracting officer intends the funds to be liquidated in a specified ACRN order, insert the following, including the specified order in the instruction:

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252.204-0003 Line Item Specific: Contracting Officer Specified ACRN Order. (SEP 2009)

The payment office shall make payment within the line item in the sequence ACRN order specified below, exhausting all funds in the previous ACRN before paying from the next ACRN.

Line Item	ACRN Order
_____	_____
_____	_____

(4) *Line item specific: by fiscal year.* If there is more than one ACRN within a contract line item, [(i.e. informational sub-line items contain separate ACRNs), and the contracting officer intends the funds to be liquidated using the oldest funds first, insert the following:

252.204-0004 Line Item Specific: by Fiscal Year. (SEP 2009)

The payment office shall make payment using the oldest fiscal year appropriations first, exhausting all funds in the previous fiscal year before disbursing from the next fiscal year. In the event there is more than one ACRN associated with the same fiscal year, the payment amount shall be disbursed from each ACRN within a fiscal year in the same proportion as the amount of funding obligated for each ACRN within the fiscal year.

(5) *Line item specific: by cancellation date.* If there is more than one ACRN within a contract line item, (i.e. informational sub-line items contain separate ACRNs), and the contracting officer intends the funds to be liquidated using the ACRN with the earliest cancellation date first, insert the following:

252.204-0005 Line Item Specific: by Cancellation Date. (SEP 2009)

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The payment office shall make payment using the ACRN with the earliest cancellation date first, exhausting all funds in that ACRN before disbursing funds from the next. In the event there is more than one ACRN associated with the same cancellation date, the payment amount shall be disbursed from each ACRN with the same cancellation date in the same proportion as the amount of funding obligated for each ACRN with the same cancellation date.

(6) *Line item specific: proration.* If there is more than one ACRN within a contract line item, (i.e. informational sub-line items contain separate ACRNs), and the contracting officer intends the funds to be liquidated in the same proportion as the amount of funding currently unliquidated for each ACRN, insert the following:

252.204-0006 Line Item Specific: Proration. (SEP 2009)

The payment office shall make payment from each ACRN in the same proportion as the amount of funding currently unliquidated for each ACRN.

(7) *Contract-wide: sequential ACRN order.* If the contracting officer intends the funds to be liquidated in sequential ACRN order, insert the following:

252.204-0007 Contract-wide: Sequential ACRN Order. (SEP 2009)

The payment office shall make payment in sequential ACRN order within the contract or order, exhausting all funds in the previous ACRN before paying from the next ACRN using the following sequential order: alpha/alpha; alpha/numeric; numeric/alpha; and numeric/numeric.

(8) *Contract-wide: contracting officer specified ACRN order.* If the contracting officer intends the funds to be liquidated in a specified ACRN order, insert the following, including the specified order in the instruction:

252.204-0008 Contract-wide: Contracting Officer Specified ACRN Order. (SEP 2009)

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The payment office shall make payment in sequential ACRN order within the contract or order, exhausting all funds in the previous ACRN before paying from the next ACRN in the sequence order specified below:

ACRN Order

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(9) *Contract-wide: by fiscal year.* If the contracting officer intends the funds to be liquidated in fiscal year order, insert the following:

252.204-0009 Contract-wide: by Fiscal Year. (SEP 2009)

The payment office shall make payment using the oldest fiscal year appropriations first, exhausting all funds in the previous fiscal year before disbursing from the next fiscal year. In the event there is more than one ACRN associated with the same fiscal year, the payment amount shall be disbursed from each ACRN within a fiscal year in the same proportion as the amount of funding obligated for each ACRN within the fiscal year.

(10) *Contract-wide: by cancellation date.* If the contracting officer intends the funds to be liquidated in fiscal year order, insert the following:

252.204-0010 Contract-wide: by Cancellation Date. (SEP 2009)

The payment office shall make payment using the ACRN with the earliest cancellation date first, exhausting all funds in that ACRN before disbursing funds from the next. In the event there is more than one ACRN associated with the same cancellation date, the payment amount shall be disbursed from each ACRN with the same cancellation date in the same proportion as the amount of funding obligated for each ACRN with the same cancellation date.

(11) *Contract-wide: proration.* If the contract or order that provides for progress payments based on costs, (unless the administrative contracting officer authorizes use of one of the other options), or if the contracting officer intends the funds to be liquidated in the same proportion as the amount of funding currently unliquidated for each ACRN, insert the following:

252.204-0011 Contract-wide: Proration. (SEP 2009)

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The payment office shall make payment from each ACRN within the contract or order in the same proportion as the amount of funding currently unliquidated for each ACRN.

(12) *Other.* If none of the standard payment instructions identified in paragraphs (d)(1) through (11) of this section are appropriate, the contracting officer may insert other payment instructions, provided the other payment instructions--

- (i) Provide a significantly better reflection of how funds will be expended in support of contract performance; and
- (ii) Are agreed to by the payment office and the contract administration office.

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*(Revised September 6, 2012)*

### PGI 216.4—INCENTIVE CONTRACTS

#### PGI 216.401 General.

(c) Incentive contracts. DoD has established the Award and Incentive Fees Community of Practice (CoP) under the leadership of the Defense Acquisition University (DAU). The CoP serves as the repository for all related materials including policy information, related training courses, examples of good award fee arrangements, and other supporting resources. The CoP is available on the DAU Acquisition Community Connection at <https://acc.dau.mil/awardandincentivefees>. Additional information can be found on the MAX website maintained by the Office of Management and Budget at: <https://max.omb.gov>.

(e) Award-fee contracts.

(i) It is DoD policy to utilize objective criteria, whenever possible, to measure contract performance. In cases where an award-fee contract must be used due to lack of objective criteria, the contracting officer shall consult with the program manager and the fee determining official when developing the award-fee plan. Award-fee criteria shall be linked directly to contract cost, schedule, and performance outcomes objectives.

(ii) Award fees must be tied to identifiable interim outcomes, discrete events or milestones, as much as possible. Examples of such interim milestones include timely completion of preliminary design review, critical design review, and successful system demonstration. In situations where there may be no identifiable milestone for a year or more, consideration should be given to apportioning some of the award fee pool for a predetermined interim period of time based on assessing progress toward milestones. In any case, award fee provisions must clearly explain how a contractor's performance will be evaluated.

(iii) FAR 16.401(d) requires a determination and findings (D&F) to be completed for all incentive- and award-fee contracts, justifying that the use of this type of contract is in the best interest of the Government. The D&F for award-fee contracts shall be signed by the head of the contracting activity or designee no lower than one level below the head of the contracting activity. The D&F required by FAR 16.401(d) for all other incentive contracts may be signed at one level above the contracting officer. This authority may not be further delegated.

(iv) The head of the contracting activity for each defense agency shall retain the D&F for (a) all acquisition category (ACAT) I or II programs, and (b) all non-ACAT I or II contracts with an estimated value of \$50 million or more. The head of the contracting activity shall forward the D&Fs for ACAT I programs to Defense Procurement and Acquisition Policy/ Contract Policy and International Policy directorate (DPAP/CPIC) within 30 days of the end of the quarter. Copies of D&Fs on all contracts shall also be included in the contract file.

#### PGI 216.401-70 Data collection.

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(a) In order to comply with the statutory requirement of section 814 of Pub. L. 109-364, each military department and defense agency shall collect the information required through the spreadsheet accessible here for each contract containing award or performance incentive provisions that have an estimated contract value (including options) greater than \$50 million at the end of the reporting period. The semi-annual periods for collecting this data are the six month periods ending June 30 and December 31 of each year. The data collected shall be provided to DPAP/CPIC within 90 days after the end of the semi-annual reporting period (e.g., data must be provided to DPAP by September 30 for the semi-annual period ending June 30) along with a report of the component's analysis of the data.

(b) Indefinite-delivery/ indefinite-quantity (ID/IQ) contracts with an incentive structure at the contract level are considered reportable at the contract level. ID/IQ contracts with incentives structured at the order level with an estimated order value exceeding the \$50 million threshold are reportable at the order level. In this latter situation, the contracting office issuing the order is responsible for reporting.

### **PGI 216.402 Application of predetermined, formula-type incentives.**

#### **PGI 216.402-2 Technical performance incentives.**

Contractor performance incentives should relate to specific performance areas of milestones, such as delivery or test schedules, quality controls, maintenance requirements, and reliability standards.

#### **PGI 216.403 Fixed-price incentive contracts.**

##### **PGI 216.403-1 Fixed-price incentive (firm target) contracts.**

(1) *Use of FPIF contract.* (i) *Not mandatory.* DFARS [216.403-1](#)(b)(1) directs the contracting officer to give particular consideration to the use of fixed-price incentive (firm target) (FPIF) contracts, especially for acquisitions moving from development to production. DFARS does not mandate the use of FPIF for initial production and each acquisition situation must be evaluated in terms of the degree and nature of the risk presented in order to select the proper contract type.

(ii) *Considerations.* Volume 4, chapter 1, of the Contract Pricing Reference Guide provides a detailed discussion of the considerations involved in selecting the proper contract type. For example:

(A) It is not in the Government's best interest to use FPIF when the cost risk is so great that establishing a ceiling price is unrealistic.

(B) It is also not in the Government's best interest to use firm-fixed-price (FFP) contracts on production programs until costs have become stable. Therefore, FPIF contracts should be considered in production programs where actual costs on prior FFP

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contracts have varied by more than seven percent from the costs considered negotiated. Contracting officers are reminded that actual costs on prior contracts for the same item, regardless of contract type or data reporting requirements of the prior contract, are cost and pricing data on the pending contract, and should be obtained from the contractor on production programs when cost or pricing data are required.

(2) *Incentive arrangement.* DFARS [216.403-1](#)(b)(2) directs the contracting officer to pay particular attention to share lines and ceiling prices for fixed-price incentive (firm target) contracts, with 120 percent ceiling and a 50/50 share ratio as the point of departure for establishing the incentive arrangement. While DFARS does not mandate the use of these share ratios or ceiling percentage, it is not unreasonable to expect that upon entering into production, risks have been mitigated to the point that the DFARS recommended point of departure for an FPIF incentive arrangement would be normal.

(3) *Analyzing risk.*

(i) *Quantification of risk.*

(A) The first step is establishing a target cost for which the probability of an underrun and overrun are considered equal and therefore, the risks and rewards are shared equally, hence the 50/50 share is the point of departure. Equally important is determining that the contractor has a high probability of being able to accomplish the effort within a ceiling percentage of 120 percent. In accomplishing both these steps, the analysis of risk is essential.

(B) Too often, risk is evaluated only in general terms without attempting to quantify the risk posed by the various elements of cost. Also, a contracting officer may incorrectly fall back on the share ratios and ceiling percentages negotiated on prior contracts or other programs, without examining the specific risks.

(C) Whether being used to select the proper contract type or establishing share lines and ceiling price on an FPIF contract, the analysis of risk as it pertains to the prime contractor is key. From a contractor's perspective, all risks, including technical and schedule risk, have financial ramifications. Technical and schedule risks, if realized, generally translate into increased effort, which means increased cost. Therefore, all risk can be translated into cost risk and quantified. Risk always has two components that must be considered in the quantification: the magnitude of the impact and the probability that it will occur.

(D) When cost risk is quantified, it is much easier to establish a reasonable ceiling percentage. The ceiling percentage is applicable to the target cost on the prime contract. It is important to understand the degree of risk that various cost elements pose in

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relation to that target cost. A discussion of the major cost elements and the risk implications follows in paragraphs (3)(ii) through (iv) of this section.

(ii) *Subcontracts and material cost and risk.*

(A) In many prime contractors' contracts, a substantial amount of risk is borne by subcontractors, not the prime contractor, via negotiated firm-fixed-price (FFP) subcontracts. In the case of FFP subcontracts, the subcontractor is obligated to deliver at the negotiated price. The risk to the prime contractor is the supplier's failure to perform or perform on time. Generally, that risk is considered to be low by both the prime and the subcontractor as evidenced by the FFP contract type. In addition, the prime contractor will normally have priced effort for material management or subcontract administration to ensure timely performance on the part of the suppliers. This effort may be bid directly or indirectly (e.g., as part of an overhead expense) depending on the contractor's accounting practices.

(B) The impact of negotiated FFP subcontracts on the prime contractor's risk can be significant. A prime contract with a 120 percent ceiling price provides overrun protection to the prime contractor equal to 20 percent of the target cost on the contract. However, if FFP subcontracts represent half of the total contract cost, then half of the target cost is subject to little or no cost risk on the part of the prime contractor. Therefore, the overrun protection provided by 20 percent of the target cost is really closer to 40 percent protection of the prime's cost that is truly at risk to the prime contractor, which likely is significantly overstated. Thus, a ceiling price less than 120 percent in this risk situation would be more appropriate.

(C) For subcontracts that have not yet been negotiated between the prime and subcontractor at the time of negotiation of the prime contract, the degree of risk is essentially limited to the difference between the price proposed by the subcontractor and the subcontract value included in the prime contractor's proposal.

(D) For subcontracts that are not FFP, the risk to the prime is based on the risk represented by the subcontractors' contractual relationship with the prime. If the subcontract is FPIF and has a 50/50 share ratio and 120 percent ceiling, the prime's risk is 50 percent of each dollar of overrun up to the ceiling amount. An analysis of the subcontractor's risk would be necessary to determine the probability of reaching the ceiling price.

(iii) *Direct labor cost and risk.*

(A) The risk in direct labor is in the hours needed to perform the effort and the risk in the labor rates paid to employees. There is generally little risk in the direct labor rates. However, there are various levels of risk in the direct labor hours needed by the prime contractor to accomplish the contract requirements. This risk can be driven by a number of

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factors including technical complexity, schedule constraints, or availability of personnel, parts, or tooling. Risks vary by task and the key is to identify the major tasks and assess the “what if” impact at the total contract cost level.

(B) Schedule is often correctly cited as a risk factor, but it is important to understand and quantify the probability and impact of a potential schedule slip. Generally, any schedule slip can only affect the prime contractor’s in-house cost. Therefore, any schedule impact should be assessed on the impact it would have on the prime contractor’s performance of its tasks.

(C) However, it is wrong to assume the worst-case scenario that a schedule delay results in an extension of the entire prime contractor workforce for the period of the delay. A responsible contractor will take steps to minimize both the delay and the impact of that delay. For instance, a production schedule assumes an optimal sequencing of tasks which presumes the timely arrival and availability of parts from suppliers or other in-house sources. A delay in receiving parts as planned could require a resequencing of tasks and could adversely affect the efficiency of performing a number of tasks, but it will not cause the entire workforce to be idle during the delay.

(iv) *Indirect (e.g., overhead) cost and risk.* Overhead and other indirect costs (e.g., general and administrative expense) can represent a significant portion of the prime contractor’s in-house cost. Indirect expense (hereafter referred to as overhead) poses potential cost growth risk or the opportunity for cost reduction from the following two perspectives:

(A) *Actual overhead rate.* (1) First, the actual overhead rate could be different than that proposed. Proposed overhead rates, even those covered by a forward pricing rate agreement, are based on forecasts of overhead expenses and the bases to which they are applied. The final overhead rate that is actually applied (charged) to a contract will be based on the actual overhead expenses and the actual base, each of which could be considerably different than estimated. The net effect could be a higher or lower overhead rate than estimated.

(2) In general, the risk in an overhead rate tends to be driven more by fluctuations in the base than in the expenses. This is because overhead expenses are made up of expenses that consist of “fixed” (e.g., depreciation) and variable (e.g., fringe benefits) in nature. When the actual base turns out to be lower than the estimated base, the fixed costs are spread over a smaller base resulting in a higher overhead rate. In general, if the actual base is greater than estimated, a lower overhead rate will result.

(3) In assessing this risk, the contracting officer should consider the contractor’s ability to predict overhead rates based on comparing proposed versus actual rates for prior years. In making this comparison, it is important to do so in a manner

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consistent with the proposal being reviewed. For instance, if the majority of overhead costs on the proposal being reviewed occur two years in the future, the comparison should look at the contractor's accuracy in predicting overhead rates two years in advance. For example, in looking at the 2009 actual overhead rate, what did the contractor propose for 2009 in its 2007 forward pricing rate proposal?

(B) *Actual base cost.* If the actual base cost on the contract (e.g., direct labor dollars) is different than that proposed, the contract will be charged overhead costs according to the actual base costs on that contract. If the contractor overruns direct labor, even if the actual labor overhead rate was the same as proposed, that rate would be applied to a higher base resulting in increased overhead dollars on that contract. The opposite would be true if the contractor underruns direct labor on the contract. Since this aspect of risk is tied to the base cost on the contract, the risk is the same as it is for those base costs (e.g., direct labor, material).

### **PGI 216.403-2 Fixed-price incentive (successive targets) contracts.**

The formula specified in FAR 16.403-2(a)(1)(iii) does not apply for the life of the contract. It is used to fix the firm target profit for the contract. To provide an incentive consistent with the circumstances, the formula should reflect the relative risk involved in establishing an incentive arrangement where cost and pricing information were not sufficient to permit the negotiation of firm targets at the outset.

### **PGI 216.405 Cost-reimbursement incentive contracts.**

#### **PGI 216.405-1 Cost-plus-incentive-fee contracts.**

Give appropriate weight to basic acquisition objectives in negotiating the range of fee and the fee adjustment formula. For example—

(1) In an initial product development contract, it may be appropriate to provide for relatively small adjustments in fee tied to the cost incentive feature, but provide for significant adjustments if the contractor meets or surpasses performance targets; and

(2) In subsequent development and test contracts, it may be appropriate to negotiate an incentive formula tied primarily to the contractor's success in controlling costs.

#### **PGI 216.405-2 Cost-plus-award-fee contracts.**

(1) Although weighted guidelines do not apply per DFARS [216.405-2\(3\)\(ii\)](#) when definitizing a contract action, the contracting officer shall, nevertheless, separately assess and document the reduced cost risk on the contract for—

(i) The period up to the date of definitization; as well as

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(ii) The remaining period of performance (see DFARS [217.7404-6](#)).

(2) Normally, award fee is not earned when the fee-determining official has determined that contractor performance has been submarginal or unsatisfactory.

(3) The basis for all award fee determinations shall be documented in the contract file.

(4) The cost-plus-award-fee contract is also suitable for level of effort contracts where mission feasibility is established but measurement of achievement must be by subjective evaluation rather than objective measurement. See Table 16-1, Performance Evaluation Criteria, for sample performance evaluation criteria and Table 16-2, Contractor Performance Evaluation Report, for a sample evaluation report.

(5) The contracting activity may—

(i) Establish a board to—

(A) Evaluate the contractor's performance; and

(B) Determine the amount of the award or recommend an amount to the contracting officer; and

(ii) Afford the contractor an opportunity to present information on its own behalf.

### **PGI 216.470 Other applications of award fees.**

The “award amount” portion of the fee may be used in other types of contracts under the following conditions:

(1) The Government wishes to motivate and reward a contractor for—

(i) Purchase of capital assets (including machine tools) manufactured in the United States, on major defense acquisition programs; or

(ii) Management performance in areas which cannot be measured objectively and where normal incentive provisions cannot be used. For example, logistics support, quality, timeliness, ingenuity, and cost effectiveness are areas under the control of management which may be susceptible only to subjective measurement and evaluation.

(2) The “base fee” (fixed amount portion) is not used.

(3) The chief of the contracting office approves the use of the “award amount.”

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(4) An award review board and procedures are established for conduct of the evaluation.

(5) The administrative costs of evaluation do not exceed the expected benefits.

<b>TABLE 16-1, PERFORMANCE EVALUATION CRITERIA</b>						
		<b>Submarginal</b>	<b>Marginal</b>	<b>Good</b>	<b>Very Good</b>	<b>Excellent</b>
<b>A</b> Time of Delivery.	(A-1) Adherence to plan schedule.	Consistently late on 20% plans	Late on 10% plans w/o prior agreement	Occasional plan late w/o justification.	Meets plan schedule.	Delivers all plans on schedule & meets prod. Change requirements on schedule
	(A-2) Action on Anticipated delays.	Does not expose changes or resolve them as soon as recognized.	Exposes changes but is dilatory in resolution on plans.	Anticipates changes, advise Shipyard but misses completion of design plans 10%.	Keeps Yard posted on delays, resolves independently on plans.	Anticipates in good time, advises Shipyard, resolves independently and meets production requirements.
	(A-3) Plan Maintenance.	Does not complete interrelated systems studies concurrently.	System studies completed but constr. Plan changes delayed.	Major work plans coordinated in time to meet production schedules.	Design changes from studies and interrelated plant issued in time to meet product schedules.	Design changes, studies resolved and test data issued ahead of production requirements.
<b>B</b> Quality of Work.	(B-1) Work Appearance.	25% dwgs. Not compatible with Shipyard repro. processes and use.	20% not compatible with Shipyard repro. processes and use.	10% not compatible with Shipyard repro. processes and use.	0% dwgs prepared by Des. Agent not compatible with Shipyard repro. processes and use.	0% dwgs. Presented incl. Des. Agent, vendors, subcontr. Not compatible with Shipyard repro processes and use.
	(B-2) Thoroughness and Accuracy of Work.	Is brief on plans tending to leave questionable situations for Shipyard to resolve.	Has followed guidance, type and standard dwgs.	Has followed guidance, type and standard dwgs. Questioning and resolving doubtful areas.	Work complete with notes and thorough explanations for anticipated questionable areas.	Work of highest caliber incorporating all pertinent data required including related activities.
	(B-3) Engineering Competence.	Tendency to follow past practice with no	Adequate engrg. To use & adapt existing designs	Engineered to satisfy specs., guidance plans	Displays excellent knowledge of	Exceptional knowledge of Naval shipwork

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### PGI 216—Types of Contracts

		variation to meet reqmts. job in hand.	to suit job on hand for routine work.	and material provided.	constr. Reqmts. considering systems aspect, cost, shop capabilities and procurement problems.	& adaptability to work process incorporating knowledge of future planning in Design.
B Quality of Work (Cont'd)	(B-4) Liaison Effectiveness	Indifferent to requirements of associated activities, related systems, and Shipyard advice.	Satisfactory but dependent on Shipyard of force resolution of problems without constructive recommendations to subcontr. or vendors.	Maintains normal contract with associated activities depending on Shipyard for problems requiring military resolution.	Maintains independent contact with all associated activities, keeping them informed to produce compatible design with little assistance for Yard.	Maintains expert contact, keeping Yard informed, obtaining info from equip, supplies w/o prompting of Shipyard.
	(B-5)	Constant surveillance required to keep job from slipping—assign to low priority to satisfy needs.	Requires occasional prodding to stay on schedule & expects Shipyard resolution of most problems.	Normal interest and desire to provide workable plans with average assistance & direction by Shipyard.	Complete & accurate job. Free of incompatibilities with little or no direction by Shipyard.	Develops complete and accurate plans, seeks out problem areas and resolves with assoc. act. ahead of schedule.
C Effectiveness in Controlling and/or Reducing Costs	(C-1) Utilization of Personnel	Planning of work left to designers on drafting boards.	Supervision sets & reviews goals for designers.	System planning by supervisory, personnel, studies checked by engineers.	Design parameters established by system engineers & held in design plans.	Mods. to design plans limited to less than 5% as result lack engrg. System correlation.
	(C-2) Control Direct Charges (Except Labor)	Expenditures not controlled for services.	Expenditures reviewed occasionally by supervision.	Direct charges set & accounted for on each work package.	Provides services as part of normal design function w/o extra charges.	No cost overruns on original estimates absorbs service demands by Shipyard.
	(C-3) Performance to Cost Estimate	Does not meet cost estimate for original work or changes 30% time.	Does not meet cost estimate for original work or changes 20% time.	Exceeds original est. on change orders 10% time and meets original design costs.	Exceeds original est. on changing orders 5% time.	Never exceeds estimates of original package or change orders.

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<b>TABLE 16-2, CONTRACTOR PERFORMANCE EVALUATION REPORT</b>							
Ratings Excellent						Period of _____ Contract Number _____	
Very Good						Contractor _____	
Marginal						Date of Report _____	
Submarginal						PNS Technical Monitor/s _____	
CATEGORY	CRITERIA	RATING		ITEM FACTOR	EVALUATION RATING	CATEGORY FACTOR	EFFICIENCY RATING
A	TIME OF DELIVERY A-1 Adherence to Plan Schedule	_____	x	.40	=	_____	
	A-2 Action on Anticipated Delays	_____	x	.30	=	_____	
	A-3 Plan Maintenance	_____	x	.30	=	_____	
	Total Item Weighed Rating					_____ x .30 =	_____
B	QUALITY OF WORK B-1 Work Appearance	_____	x	.15	=	_____	
	B-2 Thoroughness and Accuracy of Work	_____	x	.30	=	_____	
	B-3 Engineering Competence	_____	x	.20	=	_____	
	B-4 Liaison Effectiveness	_____	x	.15	=	_____	
	B-5 Independence and Initiative	_____	x	.15	=	_____	
	Total Item Weighed Rating					_____ x .40 =	_____

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## PGI 216—Types of Contracts

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C	EFFECTIVE- NESS IN CONTROL- LING AND/OR REDUCING COSTS								
	C-1 Utilization of Personnel	_____	x	.30	=	_____			
	C-2 Control of all Direct Charges Other than Labor	_____	x	.30	=	_____			
	C-3 Performance to Cost Estimate	_____	x	.40	=	_____			
	Total Item Weighed Rating	_____	x	.30	=	_____			
TOTAL WEIGHT RATING _____									
Rated by: _____									
Signature(s) _____									
NOTE: Provide supporting data and/or justification for below average or outstanding item ratings.									

# DFARS Procedures, Guidance, and Information

## PGI 225—Foreign Acquisition

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*(Revised September 6, 2012)*

### PGI 225.77—ACQUISITIONS IN SUPPORT OF OPERATIONS IN IRAQ OR AFGHANISTAN

#### PGI 225.7703 Acquisition of products or services other than small arms.

##### PGI 225.7703-2 Determination requirements.

(b) Subject matter experts for defense industrial base matters are as follows:

For Army: SAAL-PA, Army Industrial Base Policy, telephone 703-695-2488.

For DLA: DLA J-74, Acquisition Programs and Industrial Capabilities Division, telephone 703-767-1427.

For Navy: Ship Programs, DASN Ships, telephone 703-697-1710.

For Air Force: Air Force Research Laboratory, Materials Manufacturing Directorate, telephone 703-588-7777.

For Other Defense Agencies: Personnel at defense agencies without industrial base expertise on staff should contact the Office of the Deputy Under Secretary of Defense for Industrial Policy (Acquisition, Technology, and Logistics), telephone 703-697-0051.

(c) Determination formats.

(i) Prepare an individual determination and findings substantially as follows:

DEPARTMENT OR AGENCY

Authority to Acquire Products or Services  
from Iraq or Afghanistan

Determination and Findings

Upon the basis of the following findings and determination which I hereby make in accordance with the provisions of DFARS [225.7703-2](#), the acquisition of a product or service, other than small arms, in support of operations in [*Select one:* Iraq / Afghanistan / Iraq and Afghanistan] may be made as follows:

Findings

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## PGI 225—Foreign Acquisition

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1. The [contracting office] proposes to purchase under contract number \_\_\_\_\_, [describe item]. The total estimated cost of this acquisition is \_\_\_\_\_.
2. The product or service is to be used by [describe the entity(ies) that are the intended user(s) of the product or service].
3. The contracting officer recommends conducting the acquisition using the following procedure, which, given this determination, is authorized by Section 886 of Public Law 110-181:

*[Select one of the following:]*

Provide a preference for products or services from Iraq or Afghanistan.

Limit competition to products or services from Iraq or Afghanistan.

Use procedures other than competitive procedures to award a contract to a particular source or sources from Iraq or Afghanistan.

4. To implement the recommended procedure, the solicitation will contain [title and number of the applicable provision and/or clause prescribed at DFARS [225.7703-5](#)].
5. The proposed acquisition will provide a stable source of jobs in [*Select one:* Iraq / Afghanistan / Iraq and Afghanistan], because \_\_\_\_\_.
6. The proposed use of other than full and open competition is necessary to provide this stable source of jobs in [*Select one:* Iraq / Afghanistan / Iraq and Afghanistan].
7. The proposed use of other than full and open competition will not adversely affect military operations or stability operations in [*Select one:* Iraq / Afghanistan / Iraq and Afghanistan], because \_\_\_\_\_ . This is the opinion of the *[title of the official responsible for operations in the area involved]*.
8. The proposed use of other than full and open competition will not adversely affect the United States industrial base.
9. *[If a preference will be provided for products or services from Iraq or Afghanistan, or if competition will be limited to products or services from Iraq or Afghanistan, include—*

## DFARS Procedures, Guidance, and Information

### PGI 225—Foreign Acquisition

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*(1) A description of efforts made to ensure that offers are solicited from as many potential sources as is practicable; and*

*(2) Whether a notice was or will be publicized as required by FAR Subpart 5.2 and, if not, which exception in FAR 5.202 applies.]*

- or -

*[If procedures other than competitive procedures will be used to award a contract to a particular source or sources from Iraq or Afghanistan, include—*

*(1) A description of the market research conducted in accordance with FAR Part 10 and the results; or a statement of the reason market research was not conducted;*

*(2) A listing of the sources, if any, that expressed, in writing, an interest in the acquisition;*

*(3) A demonstration that the proposed contractor's unique qualifications require the use of a noncompetitive acquisition, or an explanation of the other reasons for use of a noncompetitive acquisition; and*

*(4) A certification by the contracting officer that the information in paragraphs (1) through (3) above is accurate and complete to the best of the contracting officer's knowledge and belief.]*

#### Determination

I hereby determine that it is in the national security interest of the United States to use the acquisition procedure described above, because the procedure is necessary to provide a stable source of jobs in [*Select one: Iraq / Afghanistan / Iraq and Afghanistan*] and it will not adversely affect (1) Operations in [*Select one: Iraq / Afghanistan / Iraq and Afghanistan*] or (2) the United States industrial base.

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(Date)

(ii) Prepare a determination and findings for a class of acquisitions substantially as follows:

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### DEPARTMENT OR AGENCY

#### Authority to Acquire Products or Services from Iraq or Afghanistan

#### Determination and Findings

Upon the basis of the following findings and determination which I hereby make in accordance with the provisions of DFARS [225.7703-2](#), the acquisition of products or services, other than small arms, in support of operations in [Select one: Iraq / Afghanistan / Iraq and Afghanistan] may be made as follows:

#### Findings

1. It is anticipated that [applicable departments/agencies/components] will need to award contracts during the period from \_\_\_\_\_ to \_\_\_\_\_ in order to acquire [describe the type(s) of products or services] for [describe the purpose, if the purpose for which the items will be acquired is a defining characteristic of the class of acquisitions to be covered by the class determination].
2. The products or services to be acquired under the contemplated contracts are to be used by [describe the entity(ies) intended to use the products or services].
3. This class of acquisitions should be conducted using the following procedure, which, given this determination, is authorized by Section 886 of Public Law 110-181:

*[Select one of the following:]*

Provide a preference for products or services from Iraq or Afghanistan.

Limit competition to products or services from Iraq or Afghanistan.

Use procedures other than competitive procedures to award a contract to a particular source or sources from Iraq or Afghanistan.

4. To implement the recommended procedure, solicitations will contain [title and number of the applicable provision and/or clause prescribed at DFARS [225.7703-5](#)].

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5. Each of the contemplated contracts will provide a stable source of jobs in [*Select one*: Iraq / Afghanistan / Iraq and Afghanistan], because \_\_\_\_\_.
6. The proposed use of other than full and open competition for this class of acquisitions is necessary to provide this stable source of jobs in [*Select one*: Iraq / Afghanistan / Iraq and Afghanistan].
7. The proposed use of other than full and open competition for this class of acquisitions will not adversely affect operations in [*Select one*: Iraq / Afghanistan / Iraq and Afghanistan], because\_\_\_\_\_. This is the opinion of the [*title of the official responsible for operations in the area involved*].
8. The proposed use of other than full and open competition for this class of acquisitions will not adversely affect the United States industrial base.
9. [*If a preference will be provided for products or services from Iraq or Afghanistan, or if competition will be limited to products or services from Iraq or Afghanistan, include—*

*(1) A description of the efforts that will be made to ensure that offers are solicited from as many potential sources as is practicable; and*

*(2) Whether a notice will be publicized as required by FAR Subpart 5.2 and, if not, which exception in FAR 5.202 applies.]*

- or -

*[If procedures other than competitive procedures will be used to award contracts to a particular source or sources from Iraq or Afghanistan, include—*

*(1) A description of the market research conducted in accordance with FAR Part 10 and the results; or a statement of the reason market research was not conducted;*

*(2) A listing of the sources, if any, that expressed, in writing, an interest in this class of acquisitions;*

*(3) A demonstration that the proposed contractor's unique qualifications require the use of a noncompetitive acquisition, or an explanation of the other reasons for use of a noncompetitive acquisition; and*

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(4) *A certification by the contracting officer that the information in paragraphs (1) through (3) above is accurate and complete to the best of the contracting officer's knowledge and belief.]*

### Determination

I hereby determine that it is in the national security interest of the United States to use the acquisition procedure described above for [description of the class of acquisitions to which this determination is intended to apply], because the procedure is necessary to provide a stable source of jobs in [Select one: Iraq / Afghanistan / Iraq and Afghanistan] and it will not adversely affect (1) Operations in [Select one: Iraq / Afghanistan / Iraq and Afghanistan] or (2) the United States industrial base.

\_\_\_\_\_  
(Date)

(iii) Prepare a determination and findings for acquisitions issued pursuant to [Class Deviation 2012-O0009](#), Revise Implementation of Temporary Authority to Acquire Products and Services (Including Construction) from Countries along a Major Route of Supply to Afghanistan, substantially as follows:

DEPARTMENT OR AGENCY

AUTHORITY TO ACQUIRE PRODUCTS OR SERVICES FROM  
\_\_\_\_\_

### Determination and Findings

Upon the basis of the following findings and determination, which I hereby make in accordance with the provisions of DFARS 225.7799-2 (DEVIATION 2012-O0009), the acquisition of a product or service, other than small arms, in support of operations in Afghanistan may be made as follows:

#### FINDINGS

- 1., The \_\_\_\_\_ 1A \_\_\_\_\_ proposes to purchase under solicitation number \_\_\_\_\_  
\_\_\_\_\_ 1B \_\_\_\_\_, \_\_\_\_\_ 1C \_\_\_\_\_.  
The total estimated cost of this acquisition is \_\_\_\_\_ 1D \_\_\_\_\_.
- 2., The product or service is to be used by \_\_\_\_\_ 2 \_\_\_\_\_  
\_\_\_\_\_.

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3., The contracting officer recommends conducting the acquisition using the following procedure, which, given this determination, is authorized by Section 801 of Public Law 111-084:

3

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4. To implement the recommended procedure, the solicitation will contain:

a. DFARS 252.225-7990, Preference for Products or Services from a Central Asian State (AUG 2012)(DEVIATION 2012-O0009) and 252.225-7091, Requirement for Products or Services from a Central Asian State (AUG 2012)(DEVIATION);

b. DFARS 252.225-7992, Acquisition Restricted to Products or Services from a Central Asian State (AUG 2012)(DEVIATION 2012-O0009);

c. DFARS 252.225-7998, Preference for Products or Services from Central Asia, Pakistan, or the South Caucasus (AUG 2012) (DEVIATION 2012-O0009), and DFARS 252.225-7999, Requirement for Products or Services from a Central Asia, Pakistan, or the South Caucasus (AUG 2012) (DEVIATION 2012-O0009);  
or

d. DFARS 252.225-7996, Acquisition Restricted to Products or Services from Central Asia, Pakistan, or the South Caucasus.

5., The proposed acquisition will provide a product or service that is to be used

5

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6. It is in the national security interest of the United States to use a procedure specified in 225.7799-1(a)(DEVIATION 2012-O0009) because the procedure is necessary to

6A

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Use of the procedure will not adversely affect military or stability operations in Afghanistan or the United States industrial base (see 6B).

7. Acquisitions conducted using the procedures specified in DFARS 225.7799-1(a) (DEVIATION 2012-O0009), (see para. 3. above), are authorized to use other than full and open competition procedures and do not require the justification and approval addressed in FAR Subpart 6.3.

8. Requirement will be/was synopsisized:    YES    NO    If not synopsisized, exception at FAR 5.202(a) applies.

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\_\_\_\_\_ Date: \_\_\_\_\_  
CONTRACTING OFFICER  
Name: \_\_\_\_\_  
Office Symbol: \_\_\_\_\_

### *DETERMINATION*

In accordance with the authorization outlined in DFARS 225.7799-2(b)(1)(i)(DEVIATION 2012-O0009) and under the authority of section 801 of the National Defense Authorization Act for Fiscal Year 2010, I hereby determine that it is in the national security interest of the United States to use the acquisition procedure described above because the procedure is necessary to encourage countries along a major route of supply in support of military and stability operations in Afghanistan. This procedure will not adversely affect military or stability operations in Afghanistan; or the United States industrial base.

\_\_\_\_\_ Date: \_\_\_\_\_

### INSTRUCTIONS FOR COMPLETING DETERMINATION

- 1A Office symbol of your contracting office
- 1B RFP/RFQ/IFB number
- 1C Description of the items to be purchased
- 1D Estimated amount of the requirement (in USD)
- 2 Describe the entity(ies) that are the intended user(s) of the product or service
- 3 *Select and include one of the following:*
  - a. Provide a preference for products or services from the five Central Asian states IAW the evaluation procedures at 225.7799-3 (DEVIATION 2012-O0009).
  - b. Limit competition to products or services from the five Central Asian states listed in DEVIATION 2012-O0009).
  - c. Provide a preference for products or services from Central Asia, Pakistan, or the South Caucasus IAW the evaluation procedures at 225.7799-3 (DEVIATION 2012-O0009).
  - d. Limit competition to products or services from the nine states of Central Asia, Pakistan, or the South Caucasus (DEVIATION 2012-O0009).
- 5 *Select and include one of the following:*

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In the country that is the source of the product or service.

In the course of efforts by the United States and the NATO International Security Assistance Force to ship goods to Afghanistan in support of operations in Afghanistan.

By the military forces, police, or other security personnel of Afghanistan.

6A *Select and include one of the following:*

Reduce the overall United States transportation costs and risks in shipping goods in support of operations in Afghanistan.

Encourage states of Central Asia, Pakistan, and the South

Caucasus-to cooperate in expanding supply routes through their territory in support of operations in Afghanistan.

Help develop more robust and enduring routes of supply to Afghanistan.

6B The contracting officer generally may presume that there will not be an adverse effect on the U.S. industrial base. However, when in doubt the contracting officer should coordinate with the applicable subject matter experts.

8 Include a description of efforts made to ensure offers are solicited from as many potential sources as is practicable.

### PGI 225.7703-4 Reporting requirement.

(1) Reports for [Class Deviation 2009-O0012](#), Class Deviation to Implement Temporary Authority to Acquire Products and Services Produced in Countries along a Major Route of Supply to Afghanistan and Class Deviation 2012-O0009, Revise Implementation of Temporary Authority to Acquire Products and Services (Including Construction) from Countries along a Major Supply Route to Afghanistan, shall include—

(i) The number of occasions on which a determination under Class Deviation 2009-O0012 or 2012-O0009 was made with respect to the exercise of the authority, regardless of whether or not the determination resulted in the exercise of such authority;

(ii) The total dollar amount of contracts issued pursuant to the exercise of such authority displayed—

(A) Separately for each country (Georgia, the Kyrgyz Republic, Pakistan, the Republic of Armenia, the Republic of Azerbaijan, the Republic of Kazakhstan, the Republic of Tajikistan, the Republic of Uzbekistan, or Turkmenistan for [Class Deviation 2009-O0012](#)) (the Kyrgyz Republic, the Republic of Kazakhstan, the Republic of Tajikistan, the Republic of Uzbekistan, or Turkmenistan for [Class Deviation 2012-O0009](#)); and

(B) Combined total for all countries pursuant to each deviation; and

(iii) A description and assessment of the extent to which procurements pursuant to the exercise of such authority furthered the national security interest of the United States to—

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(A) Improve local market and transportation infrastructure in order to reduce overall United States transportation costs and risks in shipping goods in support of operations in Afghanistan; or

(B) Encourage states along the major supply route to Afghanistan to cooperate in expanding supply routes through their territory in support of operations in Afghanistan.

(2) Reports for the period of January 1, 2012, through October 27, 2012, shall be submitted no later than November 30, 2012, separately reporting determinations and resultant contract actions under the authority of Class Deviation 2001-O0012, and [Class Deviation 2012-O0009](#).