

DFARS Procedures, Guidance, and Information

PGI 204—Administrative Matters

(Revised December 30, 2015)

PGI 204.73—SAFEGUARDING COVERED DEFENSE INFORMATION AND CYBER INCIDENT REPORTING

PGI 204.7303 Procedures.

PGI 204.7303-1 General.

(a) The contracting officer will be notified by the requiring activity when a solicitation is expected to result in a contract that will require covered defense information to be furnished by the Government and/or developed or delivered by the contractor, or when the contractor will provide operationally critical support.

(b) The contracting officer shall—

(1) Ensure that covered defense information or operationally critical support, for which notification was provided in accordance with paragraph (a), is identified in the contract, task order, or delivery order;

(2) Ensure that the contract, task order, or delivery order includes the requirement (such as a contract data requirements list), as provided by the requiring activity, for the contractor to apply markings, when appropriate, on covered defense information; and

(3) Coordinate with the requiring activity for instruction regarding the disposition of covered defense information associated with the contract. In cases where contract administration has been delegated to an administrative contracting officer (ACO), the ACO shall request the cognizant procuring contracting officer (PCO) to coordinate with the requiring activity.

(c) The safeguarding requirements and procedures apply until such time as the covered defense information designation is changed or removed by the requiring activity.

PGI 204.7303-2 Safeguarding controls and requirements.

(a) When an offeror proposes to vary from any of the security requirements specified by National Institute of Standards and Technology (NIST) Special Publication (SP) 800-171, "Protecting Controlled Unclassified Information in Nonfederal Information Systems and Organizations," in accordance with paragraph (c)(2) of the solicitation provision at [252.204-7008](#), the contracting officer shall submit the offeror's explanation of the proposed variance to the DoD Chief Information Officer via email at osd.dibcsia@mail.mil for adjudication.

(b) For additional information on the safeguarding controls and requirements, see the Frequently Asked Questions document at http://www.acq.osd.mil/dpap/pdi/network_penetration_reporting_and_contracting.html.

PGI 204.7303-3 Cyber incident and compromise reporting.

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(a) When a cyber incident is reported by a contractor, the DoD Cyber Crime Center (DC3) will send an unclassified encrypted email containing the cyber incident report to the contracting officer(s) identified on the Incident Collection Format (ICF). The DC3 may request the contracting officer send a digitally signed e-mail to DC3.

(1) The procuring contracting officer (PCO) shall notify the requiring activities that have contracts identified in the ICF. In cases where an administrative contracting officer (ACO) receives the cyber incident report, in lieu of the PCO, the ACO shall notify the PCO for each affected contract, who will then notify the requiring activity.

(2) In cases of cyber incidents involving multiple contracts, the DoD components will work together to designate a single contracting officer to coordinate the effort. The requiring activity will notify the contracting officer once a lead is designated.

(3) If requested by the requiring activity to assess compliance with the requirements of the clause at DFARS [252.204-7012](#), the contracting officer shall—

(i) Consult with the DoD component Chief Information Officer (CIO)/cyber security office;

(ii) Request a description of the contractor's implementation of the security requirements in National Institute of Standards and Technology (NIST) Special Publication (SP) 800-171, "Protecting Controlled Unclassified Information in Nonfederal Information Systems and Organizations" (see <http://dx.doi.org/10.6028/NIST.SP.800-171>) in order to support evaluation of whether any of the controls were inadequate, or if any of the controls were not implemented at the time of the incident; and

(iii) Provide a copy of the assessment of contractor compliance to the requiring activity, the DoD CIO, osd.dibcsia@mail.mil, and the other contracting officers listed in the cyber incident report.

(b) When requested by the contractor, the contracting officer shall provide the contractor with the "Instructions for Malware Submission" document available at http://www.acq.osd.mil/dpap/pdi/docs/Instructions_for_Malware_Submission.docx. The contracting officer should never receive malicious software directly from the contractor.

(c) If the requiring activity requests access to contractor information or equipment, in accordance with DFARS [252.204-7012](#)(f), the contracting officer shall provide a written request to the contractor.

(d) For additional information on cyber incident reporting, see the Frequently Asked Questions document at http://www.acq.osd.mil/dpap/pdi/network_penetration_reporting_and_contracting.html.

PGI 204.7303-4 DoD damage assessment activities.

(a) Prior to initiating damage assessment activities, the contracting officer shall verify that any contract identified in the cyber incident report includes the clause at DFARS [252.204-7012](#). If the contracting officer determines that a contract identified in the report does not contain the clause, the contracting officer shall notify the requiring

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activity that damage assessment activities, if required, may be determined to constitute a change to the contract.

(b) In cases of cyber incidents involving multiple contracts, a single contracting officer will be designated to coordinate with the contractor regarding media submission.

(c) If the requiring activity requests the contracting officer to obtain media, as defined in DFARS [252.204-7012](#), from the contractor, the contracting officer shall—

(1) Provide a written request for the media;

(2) Provide the contractor with the “Instructions for Media Submission” document available at http://www.acq.osd.mil/dpap/dars/pgi/docs/Instructions_for_Submitting_Media.docx; and

(3) Provide a copy of the request to DC3, electronically via email at dcise@dc3.mil, and the requiring activity.

(d) If the contracting officer is notified by the requiring activity that media are not required, the contracting officer shall notify the contractor and simultaneously provide a copy of the notice to DC3 and the requiring activity.

(e) The contracting officer shall document the action taken as required by paragraph (c) or (d) of this section, in the contract file.

(f) Upon receipt of the contractor media, DC3 will confirm receipt in writing to the contractor and the requesting contracting officer.

(g) When the requiring activity determines that the damage assessment activities are complete, the requiring activity will provide the contracting officer with a report documenting the findings from the damage assessment activities affecting covered defense information.

(h) The contracting officer shall include the report documenting the findings in the contract file(s) and provide a copy to the contractor.

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PGI 215.4—CONTRACT PRICING

PGI 215.402 Pricing policy.

(1) Contracting officers must purchase supplies and services from responsible sources at fair and reasonable prices. The Truth in Negotiations Act (TINA) (10 U.S.C. 2306a and 41 U.S.C. chapter 35) requires offerors to submit certified cost or pricing data if a procurement exceeds the TINA threshold and none of the exceptions to certified cost or pricing data requirements applies. Under TINA, the contracting officer obtains accurate, complete, and current data from offerors to establish a fair and reasonable price (see FAR 15.403). TINA also allows for a price adjustment remedy if it is later found that a contractor did not provide accurate, complete, and current data.

(2) When certified cost or pricing data are not required, and the contracting officer does not have sufficient data to determine price reasonableness, FAR 15.402(a)(2) requires the offeror to provide whatever data the contracting officer needs in order to determine fair and reasonable prices.

(3) Obtaining sufficient data from the offeror is particularly critical in situations where an item is determined to be a commercial item in accordance with FAR 2.101 and the contract is being awarded on a sole source basis. This includes commercial sales data of items sold in similar quantities and, if such data is insufficient, cost data to support the proposed price.

(4) See [PGI 215.404-1](#) for more detailed procedures for obtaining data needed to determine fair and reasonable prices.

PGI 215.403 Obtaining certified cost or pricing data.

PGI 215.403-1 Prohibition on obtaining certified cost or pricing data (10 U.S.C. 2306a and 41 U.S.C. chapter 35).

(b) *Exceptions to certified cost or pricing data requirements.* Even if an exception to certified cost or pricing data applies, the contracting officer is still required to determine price reasonableness. In order to make this determination, the contracting officer may require data other than certified cost or pricing data, including data related to prices and cost data that would otherwise be defined as certified cost or pricing data if certified.

(c)(3) *Commercial items.*

(A)(1) Contracting officers must exercise care when pricing a commercial item, especially in sole source situations. The definition of a commercial item at FAR 2.101 requires the product or service be one—

(i) That is of a type customarily used by the general public or by non-governmental entities for other than governmental purposes; and

(ii) That—

(A) Has been sold, leased, or licensed to the general public;

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public; or

(B) Has been offered for sale, lease, or license to the general

services.

(C) Has evolved or been modified from such products or

(2) Therefore, some form of prior non-government sales data, or the fact that the item was sold, leased, licensed, or offered for sale (either the specific product or service or the product or service from which the item evolved) must be obtained.

(3) The fact that an item has been determined to be a commercial item does not, in and of itself, prohibit the contracting officer from requiring data other than certified cost or pricing data. This includes data related to prices and cost data that would otherwise be defined as certified cost or pricing data if certified. Obtaining sufficient data from the offeror is particularly critical in situations where an item is determined to be a commercial item in accordance with FAR 2.101 and the contract is being awarded on a sole source basis. See [PGI 215.404-1](#) for more detailed procedures for use when obtaining data from the offeror to determine price reasonableness.

(B)(1) *Report Content.* The annual report of commercial item exceptions to Truth in Negotiations Act (TINA) requirements shall include the following:

Title: Commercial Item Exceptions to TINA Requirements

program name.

(1) Contract number, including modification number, if applicable, and

(2) Contractor name.

(3) Contracting activity.

(4) Total dollar amount of exception.

commercial.

(5) Brief explanation of the basis for determining that the item(s) are

reasonableness.

(6) Brief description of the specific steps taken to ensure price

(2) *Pricing Actions Reported.* The intent of this requirement is to report when a commercial item exception was determined. Therefore, the reporting of the commercial item exceptions are for pricing actions at the point the contracting officer makes a determination that the commercial item exception applies. For example—

Example 1: The contracting officer determined that a commercial item exception applies for an entire indefinite-delivery indefinite-quantity (IDIQ) contract and expected the subsequent orders to exceed \$15 million (based on the estimated maximum amount for the IDIQ or other supportable estimate of future orders). The organization would report this in accordance with DFARS [215.403-1\(c\)\(3\)](#) for the period in which the IDIQ contract was awarded, and would include the total dollar amount of subsequent orders

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under the exception expected at the time of award.

Example 2: The contracting officer awards an IDIQ contract with no commercial item exceptions anticipated. The contracting officer later modifies the contract for an order that will meet commercial item exceptions, and the subsequent order(s) are expected to exceed \$15 million. Reporting (in the year the modification was issued) will include this IDIQ contract, the amount of this order, and any other expected future orders that will use the exception.

(i) For the above examples, after the contract is reported as receiving the exception with expected awards over \$15 million, there would be no further report, e.g., when a subsequent order under that contract exceeds \$15 million, because reporting for that contract was already accomplished.

(ii) When explaining price reasonableness in accordance with paragraph (c)(3)(B)(1)(6) of this subsection, if pricing was accomplished when the IDIQ contract was awarded, also explain how price reasonableness was determined. In circumstances where pricing will take place on the order at a future date, explain how pricing techniques at FAR 15.404-1 will be used, including obtaining cost data, if that is the only way to determine price reasonableness.

(4) *Waivers.*

(A) *Exceptional case TINA waiver.*

(1) In determining that an exceptional case TINA waiver is appropriate, the head of the contracting activity must exercise care to ensure that the supplies or services could not be obtained without the waiver and that the determination is clearly documented. [See DPAP March 23, 2007, policy memorandum](#). The intent is not to relieve entities that normally perform Government contracts subject to TINA from an obligation to certify that cost or pricing data are accurate, complete, and current. Instead, waivers must be used judiciously, in situations where the Government could not otherwise obtain a needed item without a waiver. A prime example would be when a particular company offers an item that is essential to DoD's mission but is not available from other sources, and the company refuses to submit certified cost or pricing data. In such cases, a waiver may be appropriate. However, the procuring agency should, in conjunction with the waiver, develop a strategy for procuring the item in the future that will not require such a waiver (e.g., develop a second source, develop an alternative product that satisfies the department's needs, or have DoD produce the item).

(2) Senior procurement executive coordination. An exceptional case TINA waiver that exceeds \$100 million shall be coordinated with the senior procurement executive prior to granting the waiver.

(3) Waiver for part of a proposal. The requirement for submission of certified cost or pricing data may be waived for part of an offeror's proposed price when it is possible to clearly identify that part of the offeror's cost proposal to which the waiver applies as separate and distinct from the balance of the proposal. In granting a partial waiver, in addition to complying with the requirements in DFARS [215.403-1\(c\)\(4\)](#), the head of the contracting activity must address why it is in the Government's best interests to grant a partial waiver, given that the offeror has no objection to certifying to the balance of its cost

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proposal.

(4) *Waivers for unpriced supplies or services.* Because there is no price, unpriced supplies or services cannot be subject to cost or pricing data certification requirements. The Government cannot agree in advance to waive certification requirements for unpriced supplies or services, and may only consider a waiver at such time as an offeror proposes a price that would otherwise be subject to certification requirements.

(B) The annual report of waiver of TINA requirements shall include the following:

Title: Waiver of TINA Requirements

program name. (1) Contract number, including modification number, if applicable, and

(2) Contractor name.

(3) Contracting activity.

(4) Total dollar amount waived.

waiver. (5) Brief description of why the item(s) could not be obtained without a waiver. [See DPAP March 23, 2007, policy memorandum.](#)

reasonableness. (6) Brief description of the specific steps taken to ensure price

waiver. (7) Brief description of the demonstrated benefits of granting the

PGI 215.403-3 Requiring data other than certified cost or pricing data.

To the extent that certified cost or pricing data are not required by FAR 15.403-4 and there is no other means for the contracting officer to determine that prices are fair and reasonable, the offeror is required to submit “data other than certified cost or pricing data” (see definition at FAR 2.101). In accordance with FAR 15.403-3(a), the offeror must provide appropriate data on the prices at which the same or similar items have previously been sold, adequate for determining the reasonableness of the price. The following clarifies these requirements:

(1) *Data other than certified cost or pricing data.* When certified cost or pricing data are not required, the contracting officer must obtain whatever data is necessary in order to determine the reasonableness of the price. The FAR defines this as “data other than certified cost or pricing data.” When TINA does not apply and there is no other means of determining that prices are fair and reasonable, the contracting officer must obtain appropriate data on the prices at which the same or similar items have been sold previously, adequate for evaluating the reasonableness of the price. Sales data must be comparable to the quantities, capabilities, specifications, etc., of the product or service proposed. Sufficient steps must be taken to verify the integrity of the sales data, to include assistance from the Defense Contract Management Agency, the Defense Contract Audit Agency,

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and/or other agencies if required. See [PGI 215.404-1](#) for more detailed procedures for obtaining data from offerors to determine price reasonableness.

(2) *Previously been sold.* Contracting officers shall request offerors to provide data related to prior sales (or “offered for sale”) in support of price reasonableness determinations.

(3) *Adequacy of sales data for pricing.* The contracting officer must determine if the prior sales data is sufficient for determining that prices are fair and reasonable. If the sales data is not sufficient, additional data shall be obtained, including cost data if necessary. See [PGI 215.404-1](#) for more detailed procedures for obtaining whatever data is needed to determine fair and reasonable prices.

(4) *Reliance on prior prices paid by the Government.* Before relying on a prior price paid by the Government, the contracting officer must verify and document that sufficient analysis was performed to determine that the prior price was fair and reasonable. Sometimes, due to exigent situations, supplies or services are purchased even though an adequate price or cost analysis could not be performed. The problem is exacerbated when other contracting officers assume these prices were adequately analyzed and determined to be fair and reasonable. The contracting officer also must verify that the prices previously paid were for quantities consistent with the current solicitation. Not verifying that a previous analysis was performed, or the consistencies in quantities, has been a recurring issue on sole source commercial items reported by oversight organizations. Sole source commercial items require extra attention to verify that previous prices paid on Government contracts were sufficiently analyzed and determined to be fair and reasonable. At a minimum, a contracting officer reviewing price history shall discuss the basis of previous prices paid with the contracting organization that previously bought the item. These discussions shall be documented in the contract file.

(5) *Canadian Commercial Corporation.* All contracts with the Canadian Commercial Corporation (CCC) are placed in accordance with the practices, policies and procedures of the Government of Canada covering procurement for defense purposes (see [PGI 225.870](#)). Contracting Officers may rely on the confirmation and endorsement of the offer from the Canadian Commercial Corporation at [225.870-3\(a\)](#) as an endorsement of the cost/price as no more than would be charged to the Canadian government.

(i) When [252.215-7003](#) or [252.215-7004](#) are included in a solicitation with the Canadian Commercial Corporation, the data required by paragraph (b)(i) and (ii), in concert with the confirmation and endorsement of the offer, is intended to meet the requirements of FAR 15.404-1 for documentation of fair and reasonable pricing.

(ii) Use of [252.215-7003](#) or [252.215-7004](#) in sole source acquisitions not meeting the threshold at [215.408\(3\)\(i\)\(A\)](#) or (ii)(A)(1) or competitive acquisitions at any dollar value shall be supported by a determination and finding justifying the anticipated need for data other than certified cost or pricing data to determine a fair and reasonable price.

(iii) When the contracting officer anticipates the need for additional data to establish a fair and reasonable price, specific data should be requested at time of solicitation as detailed in DFARS [252.215-7003](#).

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(iv) Examples of clause use:

Scenario	Requirement
Sole source to CCC, fixed price, with estimated value of \$600 million.	Include provision and clause in accordance with 215.408(3)(i)(A)(2) and (ii)(A)(1)(ii) , respectively, because estimated value exceeds \$500 million.
Sole source to CCC, cost reimbursement, with estimated value of \$800,000.	Include provision and clause in accordance with 215.408(3)(i)(A)(1) and (ii)(A)(1)(i) , respectively, because estimated value exceeds \$700,000.
Sole source to CCC, cost-reimbursement, with estimated value of \$500,000.	Do not include provision and clause, unless D&F is approved in accordance with 215.408(3)(i)(B) and (ii)(A)(2) , respectively, because estimated value does not exceed \$700,000.
Sole source to CCC, fixed price, with estimated value of \$800,000	Do not include provision and clause, unless D&F is approved in accordance with 215.408(3)(i)(B) and (ii)(A)(2) , respectively, because estimated value does not exceed \$500 million.
Modifications to contracts that include the clause 252.215-7004 .	If 252.215-7004 is included in the contract, then data are required for modifications valued above the simplified acquisition threshold, or a higher threshold specified in the solicitation by the contracting officer, in accordance with 252.215-7004(b) .

PGI 215.404 Proposal analysis.

PGI 215.404-1 Proposal analysis techniques.

(a) *General.*

(i) The objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable. When the contracting officer needs data to determine price reasonableness and the offeror will not furnish that data, use the following sequence of steps to resolve the issue:

(A) The contracting officer should make it clear what data is required and why it is needed to determine fair and reasonable prices, and should be flexible in requesting data in existing formats with appropriate explanations from the offeror.

(B) If the offeror refuses to provide the data, the contracting officer should elevate the issue within the contracting activity.

(C) Contracting activity management shall, with support from the contracting officer, discuss the issue with appropriate levels of the offeror's management.

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(D) If the offeror continues to refuse to provide the data, contracting activity management shall elevate the issue to the head of the contracting activity for a decision in accordance with FAR 15.403-3(a)(4).

(E) The contracting officer shall document the contract file to describe—

(1) The data requested and the contracting officer's need for that data;

(2) Why there is currently no other alternative but to procure the item from this particular source; and

(3) A written plan for avoiding this situation in the future (e.g., develop a second source by...; bring the procurement in house to the Government by...).

(F) Consistent with the requirements at FAR 15.304 and 42.1502 and the DoD Guide to Collection and Use of Past Performance Information, Version 3, dated May 2003, the contracting officer shall provide input into the past performance system, noting the offeror's refusal to provide the requested information.

(ii) In some cases, supplies or services that are not subject to TINA may require a cost analysis (see paragraph (b)(iv) of this section). This will occur when a price analysis is not sufficient for determining prices to be fair and reasonable. In such cases, the contracting officer should consider the need for a Defense Contract Audit Agency audit of the cost data.

(iii) Particular attention should be paid to sole source commercial supplies or services. While the order of preference at FAR 15.402 must be followed, if the contracting officer cannot determine price reasonableness without obtaining data other than cost or pricing data from the offeror, at a minimum, the contracting officer must obtain appropriate data on the prices at which the same or similar items have been sold previously (often previous sales data was the basis of the commercial item determination and must be requested during price analysis of the data provided by the offeror). If previous sales data is not sufficient to determine price reasonableness, the contracting officer must obtain "data other than certified cost or pricing data" and, if necessary, perform a cost analysis.

(iv) Analysis of termination proposals, including termination of any contract scope, should not rely solely on earned value management budgets or estimates for estimating the costs of all work deleted, or the cost of deleted work already performed (reference FAR subpart 15.4, Table 15-2—Instructions for Submitting Cost/Price Proposals When Certified Cost or Pricing Data are Required, columns (2) and (3) of section III.B., Change Orders, Modifications, and Claims).

(b) *Price analysis.*

(i) Price analysis should generally be performed on supplies or services that are not subject to TINA. Available commercial sales, published catalogs or prices, etc., can sometimes be obtained through market research and can provide a basis for determining if the proposed prices are fair and reasonable.

(ii) In some cases, commercial sales are not available and there is no other market

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data for determining fair and reasonable prices. This is especially true when buying supplies or services that have been determined to be commercial, but have only been “offered for sale” or purchased on a sole source basis with no prior commercial sales upon which to rely. In such cases, the contracting officer must require the offeror to submit whatever cost data is needed to determine price reasonableness.

(iii) The following procedures shall be adhered to when executing the price analysis steps at FAR 15.404-1(b)(2):

(A) When the contracting officer is relying on data obtained from sources other than the offeror, the contracting officer must obtain and document sufficient data to confirm that previous prices paid by the Government were based on a thorough price and/or cost analysis. For example, it would not be sufficient to use price(s) from a database paid by another contracting officer without understanding the type of analysis that was performed to determine the price(s), and without verifying that the quantities were similar for pricing purposes. This does not necessarily need to be another analysis, but there should be coordination with the other office that acknowledges an analysis was performed previously.

(B) When purchasing sole source commercial items, the contracting officer must request non-Government sales data for quantities comparable to those in the solicitation. In addition, if there have not been any non-Government sales, “data other than certified cost or pricing data” shall be obtained and a price or cost analysis performed as required.

(iv) When considering advice and assistance from others, the contracting officer must pay particular attention to supplies or services that are not subject to TINA because they are “of a type” customarily used by the general public or “similar to” the item being purchased. There must be a thorough analysis of—

- (A) The available price data for the similar-type item;
- (B) The changes required by the solicitation; and
- (C) The cost of modifying the base item.

(v) In some cases, the contracting officer will have to obtain “data other than certified cost or pricing data” from the offeror because there is not sufficient data from other sources to determine if prices are fair and reasonable. The contracting officer must use business judgment to determine the level of data needed from the offeror, but must ensure that the data is sufficient for making a reasonableness determination. For example, the offeror may have significant sales of the item in comparable quantities to non-Government entities, and that may be all the data needed, once the sales data is appropriately verified. On the other hand, there may be no non-Government sales and the contracting officer may be required to obtain cost data, and should do so. The request for additional data shall be limited to only that needed to determine prices to be fair and reasonable. For example, assume the proposal is 40 percent purchase parts, 30 percent labor, and the balance indirect rates. Also assume that the Defense Contract Management Agency (DCMA) has a forward pricing rate agreement with the offeror. It may be sufficient to limit requests to historical purchase records and/or vendor quotes and the proposed labor hours. Based on this data and the forward pricing rates from DCMA, the contracting officer may be able to determine price reasonableness.

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(c) *Cost analysis.*

(i) When the contracting officer cannot obtain sufficient data to perform a price analysis in accordance with the pricing steps in FAR 15.404-1(b), a cost analysis is required.

(ii) When a solicitation is not subject to TINA and a cost analysis is required, the contracting officer must clearly communicate to the offeror the cost data that will be needed to determine if the proposed price is fair and reasonable.

(iii) To the extent possible, when cost or pricing data are not required to be submitted in accordance with Table 15-2 of FAR 15.408, the contracting officer should accept the cost data in a format consistent with the offeror's records.

(iv) The contracting officer must always consider the need for field pricing support from the Defense Contract Management Agency, the Defense Contract Audit Agency, and/or other agencies.

(e) *Technical analysis.*

Requesting technical assistance is particularly important when evaluating pricing related to items that are “similar to” items being purchased or commercial items that are “of a type” or require “minor modifications.” Technical analysis can assist in pricing these types of items by identifying any differences between the item being acquired and the “similar to” item. In particular, the technical review can assist in evaluating the changes that are required to get from the “similar to” item, to the item being solicited, so the contracting officer can determine sufficient price/cost analysis techniques when evaluating that the price for the item being solicited is fair and reasonable.

PGI 215.404-2 Data to support proposal analysis.

(a) *Field pricing assistance.*

(i) The contracting officer should consider requesting field pricing assistance (See [PGI 215.404-2\(c\)](#) for when audit assistance should be requested) for—

(A) Fixed-price proposals exceeding the certified cost or pricing data threshold;

(B) Cost-type proposals exceeding the certified cost or pricing data threshold from offerors with significant estimating system deficiencies (see DFARS [215.407-5-70\(a\)\(4\)](#) and (c)(2)(i)); or

(C) Cost-type proposals exceeding \$10 million from offerors without significant estimating system deficiencies.

(ii) The contracting officer should not request field pricing support for proposed contracts or modifications in an amount less than that specified in paragraph (a)(i) of this subsection. An exception may be made when a reasonable pricing result cannot be established because of—

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- (A) A lack of knowledge of the particular offeror; or
- (B) Sensitive conditions (e.g., a change in, or unusual problems with, an offeror's internal systems).
- (c) *Audit assistance for prime contracts or subcontracts.*
 - (i) The contracting officer should consider requesting audit assistance from DCAA for—
 - (A) Fixed-price proposals exceeding \$10 million;
 - (B) Cost-type proposals exceeding \$100 million.
 - (ii) The contracting officer should not request DCAA audit assistance for proposed contracts or modifications in an amount less than that specified in paragraph (c)(i) of this subsection unless there are exceptional circumstances explained in the request for audit. (See [PGI 215.404-2\(a\)\(i\)](#) for requesting field pricing assistance without a DCAA audit.)
 - (iii) If, in the opinion of the contracting officer or auditor, the review of a prime contractor's proposal requires further review of subcontractors' cost estimates at the subcontractors' plants (after due consideration of reviews performed by the prime contractor), the contracting officer should inform the administrative contracting officer (ACO) having cognizance of the prime contractor before the review is initiated.
 - (iv) Notify the appropriate contract administration activities when extensive, special, or expedited field pricing assistance will be needed to review and evaluate subcontractors' proposals under a major weapon system acquisition. If audit reports are received on contracting actions that are subsequently cancelled, notify the cognizant auditor in writing.
 - (v) Requests for audit assistance for subcontracts should use the same criteria as established in paragraphs (c)(i) and (c)(ii) of this subsection.

PGI 215.404-3 Subcontract pricing considerations.

- (a) The contracting officer should consider the need for field pricing analysis and evaluation of lower-tier subcontractor proposals, and assistance to prime contractors when they are being denied access to lower-tier subcontractor records.
 - (i) When obtaining field pricing assistance on a prime contractor's proposal, the contracting officer should request audit or field pricing assistance to analyze and evaluate the proposal of a subcontractor at any tier (notwithstanding availability of data or analyses performed by the prime contractor) if the contracting officer believes that such assistance is necessary to ensure the reasonableness of the total proposed price. Such assistance may be appropriate when, for example—
 - (A) There is a business relationship between the contractor and the subcontractor not conducive to independence and objectivity;
 - (B) The contractor is a sole source supplier and the subcontract costs represent a substantial part of the contract cost;

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(C) The contractor has been denied access to the subcontractor's records;

(D) The contracting officer determines that, because of factors such as the size of the proposed subcontract price, audit or field pricing assistance for a subcontract at any tier is critical to a fully detailed analysis of the prime contractor's proposal;

(E) The contractor or higher-tier subcontractor has been cited for having significant estimating system deficiencies in the area of subcontract pricing, especially the failure to perform adequate cost analyses of proposed subcontract costs or to perform subcontract analyses prior to negotiation of the prime contract with the Government; or

(F) A lower-tier subcontractor has been cited as having significant estimating system deficiencies.

(ii) It may be appropriate for the contracting officer or the ACO to provide assistance to a contractor or subcontractor at any tier, when the contractor or higher-tier subcontractor has been denied access to a subcontractor's records in carrying out the responsibilities at FAR 15.404-3 to conduct price or cost analysis to determine the reasonableness of proposed subcontract prices. Under these circumstances, the contracting officer or the ACO should consider whether providing audit or field pricing assistance will serve a valid Government interest.

(iii) When DoD performs the subcontract analysis, DoD shall furnish to the prime contractor or higher-tier subcontractor, with the consent of the subcontractor reviewed, a summary of the analysis performed in determining any unacceptable costs included in the subcontract proposal. If the subcontractor withholds consent, DoD shall furnish a range of unacceptable costs for each element in such a way as to prevent disclosure of subcontractor proprietary data.

(iv) Price redeterminable or fixed-price incentive contracts may include subcontracts placed on the same basis. When the contracting officer wants to reprice the prime contract even though the contractor has not yet established final prices for the subcontracts, the contracting officer may negotiate a firm contract price—

(A) If certified cost or pricing data on the subcontracts show the amounts to be reasonable and realistic; or

(B) If certified cost or pricing data on the subcontracts are too indefinite to determine whether the amounts are reasonable and realistic, but—

(1) Circumstances require prompt negotiation; and

(2) A statement substantially as follows is included in the repricing modification of the prime contract:

As soon as the Contractor establishes firm prices for each subcontract listed below, the Contractor shall submit (in the format and with the level of detail specified by the Contracting Officer) to the Contracting Officer the subcontractor's cost incurred in performing the subcontract and the final

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subcontract price. The Contractor and the Contracting Officer shall negotiate an equitable adjustment in the total amount paid or to be paid under this contract to reflect the final subcontract price.

(v) If the selection of the subcontractor is based on a trade-off among cost or price and other non-cost factors rather than lowest price, the analysis supporting subcontractor selection should include a discussion of the factors considered in the selection (also see FAR 15.101 and 15.304 and DFARS [215.304](#)). If the contractor's analysis is not adequate, return it for correction of deficiencies.

(vi) The contracting officer shall make every effort to ensure that fees negotiated by contractors for cost-plus-fixed-fee subcontracts do not exceed the fee limitations in FAR 15.404-4(c)(4).

PGI 215.404-70 DD Form 1547, Record of Weighted Guidelines Method Application.

(1) The DD Form 1547—

(i) Provides a vehicle for performing the analysis necessary to develop a profit objective; and

(ii) Provides a format for summarizing profit amounts subsequently negotiated as part of the contract price.

(2) The contracting officer shall—

(i) Use and prepare a DD Form 1547 whenever a structured approach to profit analysis is required by DFARS [215.404-4\(b\)](#) (see DFARS [215.404-71](#), [215.404-72](#), and [215.404-73](#) for guidance on using the structured approaches). Administrative instructions for completing the form are in [PGI 253.215-70](#).

(ii) Ensure that the DD Form 1547 is accurately completed. The contracting officer is responsible for the correction of any errors detected by the management system auditing process.

PGI 215.404-71 Weighted guidelines method.

PGI 215.404-71-4 Facilities capital employed.

(c) *Use of DD Form 1861 - Field pricing support.*

(i) The contracting officer may ask the ACO to complete the forms as part of field pricing support.

(ii) When the Weighted Guidelines Method is used, completion of the DD Form 1861 requires data not included on the Form CASB-CMF, i.e., distribution percentages of land, building, and equipment for the business unit performing the contract. Choose the most practical method for obtaining this data, for example—

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(A) Contract administration offices could obtain the data through the process used to establish factors for facilities capital cost of money or could establish advance agreements on distribution percentages for inclusion in field pricing reports;

(B) The corporate ACO could obtain distribution percentages; or

(C) The contracting officer could request the data through a solicitation provision.

PGI 215.406-1 Prenegotiation objectives.

(a) Also consider—

(i) Data resulting from application of work measurement systems in developing prenegotiation objectives; and

(ii) Field pricing assistance personnel participation in planned prenegotiation and negotiation activities.

(b) Prenegotiation objectives, including objectives related to disposition of findings and recommendations contained in preaward and postaward contract audit and other advisory reports, shall be documented and reviewed in accordance with departmental procedures.

(i) *Significant Disagreements.* (A) Contracting officers and contract auditors have complementary roles in the contracting process and are expected to collaborate to determine fair and reasonable contract values, in accordance with [Director, Defense Procurement and Acquisition Policy memorandum dated December 4, 2009, Subject: Resolving Contract Audit Recommendations](#). When a significant disagreement arises on questioned costs, the contracting officer and the auditor shall discuss the basis of the disagreement. The contracting officer shall document that discussion and their disagreement in a written communication to the auditor. The contracting officer shall also document the disagreement in the prenegotiation objective (or pre-business clearance). The contracting officer may then proceed with negotiations when the prenegotiation objectives are approved.

(B) A significant disagreement is defined as the contracting officer planning to sustain less than 75-percent of the total recommended questioned costs in a Defense Contract Audit Agency (DCAA) audit report of a contractor proposal for an initial contract or a contract modification with a value equal to or greater than \$10 million. It does not apply to costs that DCAA has categorized as unsupported or unresolved in its audit report.

(ii) *Adjudication Procedures.* DCAA has three days to elevate the issues within the contracting officer's activity after receipt of the contracting officers' written communication confirming the disagreement. Furthermore, DCAA may appeal the significant issues up the chain of command as established in each Component's "Resolving Contract Audit Recommendations" policy. If issues remain, the Director, DCAA may escalate from the Defense Component's Head of Contracting Activity or Senior Procurement Executive, to the Director, Defense Procurement and Acquisition Policy (DPAP). If the DCAA Director believes that the Director, DPAP has not adequately addressed the matter, the disagreement may finally be elevated to the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the Comptroller.

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(iii) Notwithstanding the above, the Director, DCAA, may always raise audit issues to the Director, DPAP.

(c) *Cost estimates for program baselines and contract negotiations for Major Defense Acquisition and Major Automated Information System Programs.*

(i) For the purpose of contract negotiations and obligation of funds under this paragraph, the Government shall prepare cost analyses and targets based on the Government's reasonable expectation of successful contractor performance in accordance with the contractor's proposal and previous experience.

(ii) Cost estimates developed for baseline descriptions and other program purposes by the Director of Cost Assessment and Program Evaluation pursuant to its functions, do not meet the criteria described in paragraph (c)(i) of this subsection and, thus, shall not be used for purposes of developing the Government's contract negotiation position or for the obligation of funds. However, the Government may consider the data used to develop such estimates when developing the cost analyses and targets described in paragraph (c)(i) of this subsection.

(d) See Frequently asked "Questions and Answers" at http://www.acq.osd.mil/dpap/cpic/cp/sec_808_NDAA.html relating to the limitations placed on the Department of Defense for aggregate annual amounts available for contracted services in accordance with section 808 of the National Defense Authorization Act for Fiscal year 2012, P.L. 112-81 and DFARS Class Deviation 2012-O0012, Limitation on Amounts Available for Contracted Services, dated July 31, 2012.

PGI 215.406-3 Documenting the negotiation.

(a)(7) Include the principal factors related to the disposition of findings and recommendations contained in preaward and postaward contract audit and other advisory reports.

(10) The documentation—

(A) Shall address significant deviations from the prenegotiation profit objective;

(B) Should include the DD Form 1547, Record of Weighted Guidelines Application (see DFARS [215.404-70](#)), if used, with supporting rationale;

(C) Shall address the rationale for not using the weighted guidelines method when its use would otherwise be required by DFARS [215.404-70](#); and

(D) Shall be marked "FOR OFFICIAL USE ONLY", as appropriate and in accordance with [DoD Manual 5200.01](#), Volume 4.

(11) The contracting officer is responsible to ensure the approved pre- and postnegotiation noncompetitive business clearance documents (e.g., price negotiation memoranda) are uploaded into the Contract Business Analysis Repository (CBAR) at <http://www.dcmamail.com/DCMAIT/cbt/CBAR/index.cfm> for the purpose of sharing negotiation experience with other contracting officers preparing to negotiate. This includes both

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noncompetitive actions using the procedures at FAR part 12, Acquisition of Commercial Items, as well as noncompetitive actions using the procedures at FAR part 15, Contracting by Negotiation, that are valued in excess of \$25 million and awarded on or after June 24, 2013 (and for all definitized or awarded actions over \$100 million, which occurred on or after October 1, 2012).

(A) Business clearance documents uploaded to CBAR shall be marked "FOR OFFICIAL USE ONLY (FOUO)" at the top and bottom of the face or cover page, and on the bottom of each page containing FOUO, including the back page or cover.

(B) The business clearance documents uploaded to CBAR shall be signed by the contracting officer and shall include all other signatures required by local policy/procedure.

(C) The documentation shall be uploaded to CBAR no later than 30 days after award of the contract action associated with the negotiation and shall include both the prenegotiation objectives required by FAR 15.406-1 and [PGI 215.406-1](#), and the record of negotiations (i.e. the Price Negotiation Memoranda required by FAR 15.406-3 and [PGI 215.406-3](#)). The contracting officer shall complete the "description of acquisition" field with keywords and searchable terms to identify the products and services acquired. Additionally, the contracting officer shall complete the "comments" field of the CBAR record to summarize unique features and aspects of the negotiation in order to prompt other contracting teams to inquire further to learn from their peers' prior experience.

(D) If an initial indefinite-delivery indefinite-quantity (IDIQ) task or delivery order contract contemplates issuance of task or delivery orders that will invoke negotiated rates or values from the basic contract, then the business clearance record for the basic IDIQ contract shall be uploaded if the estimated value of the contract (e.g. ceiling price) exceeds the prescribed dollar threshold. To the extent individual task or delivery orders entail a negotiation (i.e. did not simply incorporate prices established at the basic contract level), a business clearance record for the individual task or delivery orders that exceed the prescribed dollar thresholds shall be uploaded to CBAR.

(E) For additional information about obtaining access to and training for the CBAR database, see the Director, Defense Contract Management Agency memorandum, dated April 2, 2013. [Click here](#).

PGI 215.407-2 Make-or-buy programs.

(d) *Solicitation Requirements.* Consider the following factors when deciding whether to request a make-or-buy plan—

- (1) The prime contractor's assumption of risk;
- (2) The prime contractor's plant capacity;
- (3) The prime contractor's degree of vertical integration;
- (4) The prime contractor's internal resources;
- (5) The anticipated contract type;

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(6) The complexity, uniqueness, or configuration maturity associated with the end item or its subsystems;

(7) Critical path items;

(8) The impact on contract overhead rates with respect to maintaining work in-house;

(9) The industrial base that could potentially satisfy some system requirements, based on market survey;

(10) Proprietary data and/or trade secrets;

(11) Potential product quality concerns associated with items that would be subject to subcontracting;

(12) Integrated master schedule timelines and their tolerances for variation;

(13) The availability and experience of program office personnel to credibly analyze and evaluate a submission; and

(14) Socioeconomic considerations, e.g. small business or labor surplus area concerns.

(f) *Evaluation, negotiation, and Agreement.* When a make-or-buy plan is required, listed below are factors that may be considered when evaluating a submission—

(1) Prime contractor past performance, especially with respect to subcontract management;

(2) Prime contractor make-or-buy history;

(3) Adequacy of contractor's existing make-or-buy processes, including cost and technical risk considerations;

(4) Component availability through existing sources, e.g. available inventory, or other Government contracts;

(5) Prime contractor plant capacity;

(6) The adequacy of the prime contractor's technical, financial and personnel capabilities; and

(7) Prime contractor justification that is provided with respect to items it does not normally make.

PGI 215.407-4 Should-cost review.

(b) *Program should-cost review.*

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(2) DoD contracting activities should consider performing a program should-cost review before award of a definitive contract for a major system as defined by DoDI 5000.2. See DoDI 5000.2 regarding industry participation.

(c) *Overhead should-cost review.*

(1) Contact the Defense Contract Management Agency (DCMA) (<http://www.dcma.mil/>) for questions on overhead should-cost analysis.

(2)(A) DCMA or the military department responsible for performing contract administration functions (e.g., Navy SUPSHIP) should consider, based on risk assessment, performing an overhead should-cost review of a contractor business unit (as defined in FAR 2.101) when all of the following conditions exist:

- (1) Projected annual sales to DoD exceed \$1 billion;
- (2) Projected DoD versus total business exceeds 30 percent;
- (3) Level of sole-source DoD contracts is high;
- (4) Significant volume of proposal activity is anticipated;
- (5) Production or development of a major weapon system or program is anticipated; and
- (6) Contractor cost control/reduction initiatives appear inadequate.

(B) The head of the contracting activity may request an overhead should-cost review for a business unit that does not meet the criteria in paragraph (c)(2)(A) of this subsection.

(C) Overhead should-cost reviews are labor intensive. These reviews generally involve participation by the contracting, contract administration, and contract audit elements. The extent of availability of military department, contract administration, and contract audit resources to support DCMA-led teams should be considered when determining whether a review will be conducted. Overhead should-cost reviews generally should not be conducted at a contractor business segment more frequently than every 3 years.

PGI 215.407-5 Estimating systems.

PGI 215.407-5-70 Disclosure, maintenance, and review requirements.

(e) *Disposition of findings.*

(2) *Initial determination.*

(ii)(A) Within 10 days of receiving the report, if the contracting officer makes a determination that there is a significant deficiency, the contracting officer should provide an initial determination of deficiencies and a copy of the report to the contractor and require the contractor to submit a written response.

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(C) *Evaluation of contractor's response.* Within 30 days of receiving the contractor's response, the contracting officer, in consultation with the auditor or cognizant functional specialist, should evaluate the contractor's response and make a final determination.

(3) *Final Determination.*

(ii)(A) *Monitoring contractor's corrective action.* The auditor and the contracting officer shall monitor the contractor's progress in correcting deficiencies. If the contractor fails to make adequate progress, the contracting officer shall take whatever action is necessary to ensure that the contractor corrects the deficiencies. Examples of actions the contracting officer can take are: bringing the issue to the attention of higher level management, reducing or suspending progress payments (see FAR 32.503-6), implementing or increasing the withholding in accordance with [252.242-7005](#), Contractor Business Systems, if applicable, and recommending non-award of potential contracts.

(B) *Correction of significant deficiencies.*

(1) When the contractor notifies the contracting officer, in writing, that the contractor has corrected the significant deficiencies, the contracting officer shall request that the auditor review the correction to determine if the deficiencies have been resolved.

(2) The contracting officer shall determine if the contractor has corrected the deficiencies.

(3) If the contracting officer determines the contractor has corrected the deficiencies, the contracting officer's notification shall be sent to the auditor; payment office; appropriate action officers responsible for reporting past performance at the requiring activities; and each contracting and contract administration office having substantial business with the contractor, as applicable.

PGI 215.470 Estimated data prices.

(b)(i) The form and the provision included in the solicitation request the offeror to state what portion of the total price is estimated to be attributable to the production or development of the listed data for the Government (not to the sale of rights in the data). However, offerors' estimated prices may not reflect all such costs; and different offerors may reflect these costs in a different manner, for the following reasons—

- (A) Differences in business practices in competitive situations;
- (B) Differences in accounting systems among offerors;
- (C) Use of factors or rates on some portions of the data;
- (D) Application of common effort to two or more data items; and
- (E) Differences in data preparation methods among offerors.

(ii) Data price estimates should not be used for contract pricing purposes without

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further analysis.

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PGI 242—Contract Administration and Audit Services

(Revised December 30, 2015)

PGI 242.3—CONTRACT ADMINISTRATION OFFICE FUNCTIONS

PGI 242.302 Contract administration functions.

(a)(13)(B)(1) For contracts assigned to DCMA for contract administration, designate as the payment office—

(i) The cognizant Defense Finance and Accounting Service (DFAS) payment office as specified in the Federal Directory of Contract Administration Services Components (available via the Internet at <https://pubapp.dcmamil/CASD/main.jsp>), for contracts funded with DoD funds;

(ii) The department or agency payment office, if authorized by defense financial management regulations or if the contract is funded with non-DoD funds; or

(iii) Multiple payment offices under paragraphs (a)(13)(B)(1)(i) and (ii) of this section, if the contract is funded with both DoD and non-DoD funds.

(2) For contracts not assigned to DCMA, select a payment office or offices under department/agency procedures. DoD personnel may use the DFAS Reference Tool, available via the Internet at <http://referencetool.dfas.mil>, to identify cognizant DFAS payment offices.

PGI 242.302(a)(S-72)—Surveillance of the contractor's implementation of the Synchronized Predeployment and Operational Tracker (SPOT)

(1) For suggested criteria to assess a contractor's implementation of SPOT, see SPOT Compliance Checklist at http://www.acq.osd.mil/log/PS/ctr_mgt_accountability.html.

(2)(i) For visibility into certain discrepant records in SPOT, use the following audit compliance reports (ACRs) available via the Total Operational Picture Support System (TOPSS):

(A) *Deployment Status Report (ACR-01)*. Lists all deployment requests that were submitted less than 10 days prior to the estimated deployment start date.

(B) *In-Theater Arrival Date (ITAD) Report (ACR-02)*. Lists all records where the ITAD was entered more than one day after the actual ITAD.

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(C) *Primary Duty Station Report (ACR-03)*. Lists all deployments where the primary duty station arrival date was entered more than three days after the actual duty station arrival date.

(D) *Closeout Deployment Report (ACR-05)*. Lists all deployments where the actual deployment end date was entered more than three days after the actual deployment end date.

(E) *Open/Blank In-Theater Arrival Date (ITAD) Report (ACR-06)*. Lists where the ITAD was not entered into SPOT within 15 days after the estimated deployment start date.

(ii) Contracting Officers shall obtain a TOPSS account by following the TOPPS PKI Certificate Registration instructions at http://www.acq.osd.mil/log/PS/ctr_mgt_accountability.html.

(3) Contracting Officers shall—

(i) Take immediate action to notify contractors of non-compliance with SPOT (e.g., issue one of the delinquency notices identified at FAR 49.607).

(ii) Document performance deficiencies related to SPOT non-compliance that will be relevant to past performance evaluations for future contract opportunities in accordance with FAR subpart 42.15.

PGI 242.302(a)(S-75)—Monitoring contractor costs

(a) *Scope*.

This section provides guidelines for—

(1) Monitoring the policies, procedures, and practices used by contractors to control direct and indirect costs related to Government business; and

(2) Eliminating duplication in Government monitoring of contractors' costs.

(b) *Policy*.

Effective management of contract costs is essential to the efficient and economical performance of Government contracts. Contractors are responsible for managing and controlling their direct and indirect costs; however, DoD must systematically monitor the management of contractors' costs to ensure these responsibilities are met.

(c) *Responsibilities*.

(1) Departments and agencies.

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(i) Departments and agencies should conduct a formal program of Government monitoring of contractor policies, procedures, and practices for controlling costs (cost monitoring) at contractor locations where—

(A) Sales to the Government, as determined by the contract administration offices, during the contractor's next fiscal year are expected to exceed \$200 million in contracts—

(1) Based on costs incurred; or

(2) Negotiated based on projected costs.

(B) The contract administration office determines the cost benefits derived from monitoring the individual contractors with less than \$200 million in other than firm fixed-price and fixed-price with economic price adjustment contracts—to be warranted; or

(C) Significant Government business exists and is specifically directed by the head of the contracting activity.

(ii) Departments and agencies are responsible for designating the cost monitoring sites and discontinuing them when the criteria are no longer met.

(2) Contract administration offices.

(i) Contract administration offices (CAOs), which are designated as cost monitoring sites, are responsible for—

(A) Assigning a cost monitoring specialist (CMS) to conduct the program. The CMS may be the administrative contracting officer (ACO) or any other CAO employee whose normal function relates to evaluation of contractor performance.

(B) Reviewing and approving the cost monitoring plan for the next fiscal year and the cost monitoring report from the concluding fiscal year.

(ii) The ACO is responsible for—

(A) In the absence of a CMS, ensuring completion of the CMS duties referenced in paragraph (iii) of this section;

(B) Considering review results in direct and indirect rate negotiations and contract negotiations;

(C) Ensuring the contractor implements corrective action recommended in the cost monitoring review reports; and

(D) Resolving disputes with the contractor regarding cost monitoring review findings, conclusions, or recommendations.

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(iii) The CMS is responsible for managing the cost monitoring effort within the CAO and coordinating planned effort with the contract auditor. This includes—

(A) Preparing and maintaining an annual written cost monitoring plan for reviewing contractor operations (see paragraph (d));

(B) Maintaining an inventory of planned and completed CAO, Defense Contract Audit Agency (DCAA), and other Government reviews and audits in order to mitigate duplication of efforts;

(C) Monitoring contractor direct and indirect rates and factors during the year, making comparisons to historical actual costs and to contractor proposed or negotiated forward pricing rates and factors, and providing rate recommendations based on their analysis;

(D) Performing approved functional reviews of contractor activities, to include assisting Government personnel in obtaining access to pertinent contractor policies, procedures, and related data;

(E) Advising the ACO and CAO management of corrective action recommended to improve inefficient or uneconomical contractor conditions, policies, or practices, to include preparing, for the ACO's consideration when appropriate, a Notice of Intent to Disallow or Not Recognize Costs;

(F) Continuously tracking the status of recommendations made to the contractor concerning cost performance stemming from all Government reports;

(G) Keeping the contracting officer, program manager, contract auditor, and other responsible officials informed of issues affecting economical contract performance;

(H) Maintaining current organizational charts of the operations identifiable to the contractor's functional centers of its cost control functions; and

(I) Preparing a final cost monitoring report summarizing all of the cost monitoring functions performed during the Government fiscal year.

(3) *Audit and other organizations.*

(i) The contract auditor is responsible for assisting the CMS by performing the portion of cost monitoring plan and related analyses that requires access to the contractor's financial and accounting records supporting the cost or pricing data. (This does not preclude the program manager, contracting officer, ACO, CMS, or other representatives from reviewing contractor records and data necessary to the performance of their duties.)

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(ii) Audit organizations, program offices, contracting activities, and any other DoD organizations with responsibility for reviewing contractor operations for the purpose of monitoring contractor policies, procedures, and practices to control costs, shall submit to the CMS—

(A) An annual schedule of planned and tentative visits, oversight reviews, and audits to be performed at cost monitoring locations; and

(B) Revisions to scheduled visits or audit plans, within 30 days of issuance.

(d) *Annual cost monitoring plan.*

(1) *Description.*

The annual cost monitoring plan is a strategy for monitoring, reviewing, negotiating, and approving contractor's direct and indirect rates, business systems, corrective actions to deficient processes, and cost controls by coordinating the capabilities of the CAO, DCAA, and other Government representatives in an effort to reduce unreasonable, erroneous, or improper costs to Government contracts.

(2) *Contents of the plan.*

(i) The plan should—

(A) Provide coverage for each significant activity of the contractor over a period of five to ten years;

(B) Provide coverage for contractor future years dependent on the period of forward pricing years the contractor proposes and the expected length of executed Government programs;

(C) Be updated to reflect changed conditions as the year progresses; and

(D) Be consistent with the approved schedule, and any deviations should be explained in the final cost monitoring report.

(ii) The plan must identify the organizations having the primary responsibility for performing the reviews.

(iii) The plan should include reviews required by the ACO and DFARS. Reviews will be performed by the assigned organization during the coordination phase of the cost monitoring plan, except when DFARS makes a specific organizational assignment. For example, Subpart [244.301](#) makes the ACO responsible for leading contractor purchasing system reviews and [215.407-5-70\(c\)\(3\)](#) makes the DCAA auditor responsible for leading estimating system reviews on behalf of the ACO.

(3) *Selecting the activities.*

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(i) The CAO selects the activities for the cost monitoring plan. DCAA will complete its annual audit plan independently and communicate the approved audit plan to ensure the most effective monitoring approach. To ensure all Government interests are considered in the selection, the CMS should invite CAO, DCAA, and other interested Government representatives to a meeting before the beginning of each Government fiscal year to identify and prioritize the areas to be reviewed during the coming year, to ensure a fully communicated Government cost monitoring plan.

(ii) The selection team should consider the following data and assign primary responsibility in the selection process—

(A) Contractor forecasts for the coming years supporting direct and indirect costs by functional centers of its cost control system and the results of the latest survey performed of such systems;

(B) Organizational charts for the contractor's entire operation;

(C) Outline of the contractor's accounting system showing the flow of costs by function;

(D) Determination of Government participation in the dollars attributable to the operations and cost accounts under consideration;

(E) List of recent reviews and audits performed by CAO, DCAA, and other Government representatives; list should show outstanding weakness and deficiencies in the contractor's operations that will be considered for follow-up reviews or audits;

(F) Evidence of contractor under or over staffing;

(G) Significant departures from established contractor productivity standards;

(H) Major financial variances from forecasts in prior years;

(I) Evidences of idle or under-used capacity;

(J) Any visits or audit plans scheduled by other Government organizations and identified to the CMS; and

(K) Any other significant information or business changes which could have an adverse effect or cause a significant change to on the contractor's management of contract costs.

(4) *Prioritizing the plan.*

(i) The CMS should prioritize the plan to review contractor activity by considering—

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- (A) The extent of competition in awarded contracts;
- (B) The contractor's operating methods;
- (C) The nature of the work;
- (D) Acquisition cycle stage;
- (E) Business and industry practices;
- (F) Types of contracts involved;
- (G) Degree of technical and financial risk;
- (H) Previously reported findings and deficiencies;
- (I) Ratio of Government/commercial work;
- (J) Significant changes in the level (dollars) of the contractor's work and backlog; and
- (K) The extent performance efficiencies have been previously demonstrated.

(5) *Plan approval and submission.*

(i) The local DCAA office will provide an approved annual audit plan to the ACO within 30 days after the first day of each fiscal year.

(ii) The CMS will submit an adequate cost monitoring plan to the head of the local CAO within 45 days after the first day of each fiscal year.

(iii) The head of the local CAO, or designee, will approve the annual cost monitoring plan within 15 days of an adequate submission. The head of the local CAO will ensure that adequate coordination of the cost monitoring plan was performed with the DCAA and other responsible Government representatives.

(6) *Reviews and analysis.*

(i) Perform functional reviews and audits as scheduled in accordance with the cost monitoring plan.

(ii) Hold interim meetings with the contractor as necessary to clarify information. Hold an exit conference at the conclusion of reviews.

(iii) Prepare reports at the conclusion of reviews. The ACO will determine whether a Government review or audit report will be provided to a contractor based on specific regulatory requirements or the impact to pending negotiations or litigation.

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(iv) Prepare periodic reports on the results of the CMS analysis and monitoring of the contractors rates and factors, which should address the causes for significant deviations from historical and negotiated forward pricing rates and factors.

(e) *Annual cost monitoring report.*

(1) *Description.*

The annual cost monitoring report is a culmination of the Government activities performed during the fiscal year in an effort to conduct and maintain a formal monitoring program of contractor policies, procedures, and practices for controlling costs charged to Government contracts.

(2) *Contents of the report.*

(i) The report should—

(A) Provide a brief introduction of the contractor and the products it provides to the Government;

(B) Summarize each review and audit completed during the reporting period along with any deviations from the cost monitoring plan;

(C) Highlight open deficiencies, corrected deficiencies, and any newly reported deficiencies; and

(D) Include the current status of all final, billing, and forward pricing rates.

(ii) The annual cost monitoring report is the primary responsibility of the CAO. Incorporate the final DCAA audit reports by summary and reference.

(3) *Report approval and submission.*

(i) The head of the local CAO, or designee, will approve the annual cost monitoring report within 60 days of the end of the Government fiscal year.

(ii) A copy of the approved report will be provided to the head of the local DCAA office within 15 days of approval.