

Pertinent Sections of the NDAA for FY 2017

114TH CONGRESS

2d Session

HOUSE OF REPRESENTATIVES

REPORT

114-840

NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 2017

CONFERENCE REPORT

TO ACCOMPANY

S. 2943



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TITLE II—RESEARCH, DEVELOPMENT, TEST, AND EVALUATION

Subtitle B—Program Requirements, Restrictions, and Limitations

SEC. 217. INCREASED MICRO-PURCHASE THRESHOLD FOR RESEARCH PROGRAMS AND ENTITIES.

(a) *INCREASED MICRO-PURCHASE THRESHOLD FOR BASIC RESEARCH PROGRAMS AND ACTIVITIES OF THE DEPARTMENT OF DEFENSE SCIENCE AND TECHNOLOGY REINVENTION LABORATORIES.*—

(1) *IN GENERAL.*—Chapter 137 of title 10, United States Code, is amended by adding at the end the following new section:

“§ 2338. Micro-purchase threshold for basic research programs and activities of the Department of Defense science and technology reinvention laboratories

“Notwithstanding subsection (a) of section 1902 of title 41, the micro-purchase threshold for the Department of Defense for purposes of such section is \$10,000 for purposes of basic research programs and for the activities of the Department of Defense science and technology reinvention laboratories.”

(2) *CLERICAL AMENDMENT.*—The table of sections at the beginning of such chapter is amended by adding at the end the following new item:

“2338. Micro-purchase threshold for basic research programs and activities of the Department of Defense science and technology reinvention laboratories.”

(b) *INCREASED MICRO-PURCHASE THRESHOLD FOR UNIVERSITIES, INDEPENDENT RESEARCH INSTITUTES, AND NONPROFIT RESEARCH ORGANIZATIONS.*—Section 1902 of title 41, United States Code, is amended—

(1) in subsection (a)—

(A) by striking “For purposes” and inserting “(1) Except as provided in section 2338 of title 10 and paragraph (2) of this subsection, for purposes”; and

(B) by adding at the end the following new paragraph:

“(2) For purposes of this section, the micro-purchase threshold for procurement activities administered under sections 6303 through 6305 of title 31 by institutions of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)), or related or affiliated nonprofit entities, or by nonprofit research organizations or independent research institutes is—

“(A) \$10,000; or

“(B) such higher threshold as determined appropriate by the head of the relevant executive agency and consistent with clean audit findings under chapter 75 of title 31, internal institutional risk assessment, or State law.”; and

(2) in subsections (d) and (e), by striking “not greater than \$3,000” and inserting “with a price not greater than the micro-purchase threshold”

TITLE VII—HEALTH CARE PROVISIONS

Subtitle A—Reform of TRICARE and Military Health System

SEC. 705. VALUE-BASED PURCHASING AND ACQUISITION OF MANAGED CARE SUPPORT CONTRACTS FOR TRICARE PROGRAM.

(a) VALUE-BASED HEALTH CARE.—

(1) IN GENERAL.—The Secretary of Defense shall develop and implement value-based incentive programs as part of any contract awarded under chapter 55 of title 10, United States Code, for the provision of health care services to covered beneficiaries to encourage health care providers under the TRICARE program (including physicians, hospitals, and other persons and facilities involved in providing such health care services) to improve the following:

(A) The quality of health care provided to covered beneficiaries under the TRICARE program.

(B) The experience of covered beneficiaries in receiving health care under the TRICARE program.

(C) The health of covered beneficiaries.

(2) VALUE-BASED INCENTIVE PROGRAMS.—

(A) DEVELOPMENT.—In developing value-based incentive programs under paragraph (1), the Secretary shall—

(i) link payments to health care providers under the TRICARE program to improved performance with respect to quality, cost, and reducing the provision of inappropriate care;

(ii) consider the characteristics of the population of covered beneficiaries affected by the value-based incentive program;

(iii) consider how the value-based incentive program would affect the receipt of health care under the TRICARE program by such covered beneficiaries;

(iv) establish or maintain an assurance that such covered beneficiaries will have timely access to health care during the operation of the value-based incentive program;

(v) ensure that such covered beneficiaries do not incur any additional costs by reason of the value-based incentive program; and

(vi) consider such other factors as the Secretary considers appropriate.

(B) SCOPE AND METRICS.—With respect to a value-based incentive program developed and implemented under paragraph (1), the Secretary shall ensure that—

(i) the size, scope, and duration of the value-based incentive program is reasonable in relation to the purpose of the value-based incentive program; and

(ii) the value-based incentive program relies on the core quality performance metrics adopted pursuant to section 728.

(3) *USE OF EXISTING MODELS.*—*In developing a value-based incentive program under paragraph (1), the Secretary may adapt a value-based incentive program conducted by a TRICARE managed care support contractor, the Centers for Medicare & Medicaid Services, or any other Federal Government, State government, or commercial health care program.*

(b) *TRANSFER OF CONTRACTING RESPONSIBILITY.*—*With respect to the acquisition of any managed care support contracts under the TRICARE program initiated after the date of the enactment of this Act, the Secretary of Defense shall transfer contracting responsibility for the solicitation and award of such contracts from the Defense Health Agency to the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.*

(c) *ACQUISITION OF CONTRACTS.*—

(1) *STRATEGY.*—*Not later than January 1, 2018, the Secretary of Defense shall develop and implement a strategy to ensure that managed care support contracts under the TRICARE program entered into with private sector entities, other than overseas medical support contracts—*

(A) *improve access to health care for covered beneficiaries;*

(B) *improve health outcomes for covered beneficiaries;*

(C) *improve the quality of health care received by covered beneficiaries;*

(D) *enhance the experience of covered beneficiaries in receiving health care; and*

(E) *lower per capita costs to the Department of Defense of health care provided to covered beneficiaries.*

(2) *APPLICABILITY OF STRATEGY.*—

(A) *IN GENERAL.*—*The strategy required by paragraph (1) shall apply to all managed care support contracts under the TRICARE program entered into with private sector entities.*

(B) *MODIFICATION OF CONTRACTS.*—*Contracts entered into prior to the implementation of the strategy required by paragraph (1) shall be modified to ensure consistency with such strategy.*

(3) *LOCAL, REGIONAL, AND NATIONAL HEALTH PLANS.*—*In developing and implementing the strategy required by paragraph (1), the Secretary shall ensure that local, regional, and national health plans have an opportunity to participate in the competition for managed care support contracts under the TRICARE program.*

(4) *CONTINUOUS INNOVATION.*—*The strategy required by paragraph (1) shall include incentives for the incorporation of innovative ideas and solutions into managed care support contracts under the TRICARE program through the use of teaming agreements, subcontracts, and other contracting mechanisms that can be used to develop and continuously refresh high-performing networks of health care providers at the national, regional, and local level.*

(5) *ELEMENTS OF STRATEGY.*—The strategy required by paragraph (1) shall provide for the following with respect to managed care support contracts under the TRICARE program:

(A) The maximization of flexibility in the design and configuration of networks of individual and institutional health care providers, including a focus on the development of high-performing networks of health care providers.

(B) The establishment of an integrated medical management system between military medical treatment facilities and health care providers in the private sector that, when appropriate, effectively coordinates and integrates health care across the continuum of care.

(C) With respect to telehealth services—

(i) the maximization of the use of such services to provide real-time interactive communications between patients and health care providers and remote patient monitoring; and

(ii) the use of standardized payment methods to reimburse health care providers for the provision of such services.

(D) The use of value-based reimbursement methodologies, including through the use of value-based incentive programs under subsection (a), that transfer financial risk to health care providers and managed care support contractors.

(E) The use of financial incentives for contractors and health care providers to receive an equitable share in the cost savings to the Department resulting from improvement in health outcomes for covered beneficiaries and the experience of covered beneficiaries in receiving health care.

(F) The use of incentives that emphasize prevention and wellness for covered beneficiaries receiving health care services from private sector entities to seek such services from high-value health care providers.

(G) The adoption of a streamlined process for enrollment of covered beneficiaries to receive health care and timely assignment of primary care managers to covered beneficiaries.

(H) The elimination of the requirement for a referral to be authorized prior receiving specialty care services at a facility of the Department of Defense or through the TRICARE program.

(I) The use of incentives to encourage covered beneficiaries to participate in medical and lifestyle intervention programs.

(6) *RURAL, REMOTE, AND ISOLATED AREAS.*—In developing and implementing the strategy required by paragraph (1), the Secretary shall—

(A) assess the unique characteristics of providing health care services in Alaska, Hawaii, and the territories and possessions of the United States, and in rural, remote, or isolated locations in the contiguous 48 States;

(B) consider the various challenges inherent in developing robust networks of health care providers in those locations;

(C) develop a provider reimbursement rate structure in those locations that ensures—

(i) timely access of covered beneficiaries to health care services;

(ii) the delivery of high-quality primary and specialty care;

(iii) improvement in health outcomes for covered beneficiaries; and

(iv) an enhanced experience of care for covered beneficiaries; and

(D) ensure that managed care support contracts under the TRICARE program in those locations will—

(i) establish individual and institutional provider networks that will provide timely access to care for covered beneficiaries, including pursuant to such networks relating to an Indian tribe or tribal organization that is party to the Alaska Native Health Compact with the Indian Health Service or has entered into a contract with the Indian Health Service to provide health care in rural Alaska or other locations in the United States; and

(ii) deliver high-quality care, better health outcomes, and a better experience of care for covered beneficiaries.

(d) **REPORT PRIOR TO CERTAIN CONTRACT MODIFICATIONS.**—Not later than 60 days before the date on which the Secretary of Defense first modifies a contract awarded under chapter 55 of title 10, United States Code, to implement a value-based incentive program under subsection (a), or the managed care support contract acquisition strategy under subsection (c), the Secretary shall submit to the Committees on Armed Services of the Senate and the House of Representatives a report on any implementation plan of the Secretary with respect to such value-based incentive program or managed care support contract acquisition strategy.

(e) **COMPTROLLER GENERAL REPORT.**—

(1) **IN GENERAL.**—Not later than 180 days after the date on which the Secretary submits the report under subsection (d), the Comptroller General of the United States shall submit to the Committees on Armed Services of the Senate and the House of Representatives a report that assesses the compliance of the Secretary of Defense with the requirements of subsection (a) and subsection (c).

(2) **ELEMENTS.**—The report required by paragraph (1) shall include an assessment of the following:

(A) Whether the approach of the Department of Defense for acquiring managed care support contracts under the TRICARE program—

(i) improves access to care;

(ii) improves health outcomes;

(iii) improves the experience of care for covered beneficiaries; and

(iv) lowers per capita health care costs.

(B) Whether the Department has, in its requirements for managed care support contracts under the TRICARE program, allowed for—

(i) maximum flexibility in network design and development;

(ii) integrated medical management between military medical treatment facilities and network providers;

(iii) the maximum use of the full range of telehealth services;

(iv) the use of value-based reimbursement methods that transfer financial risk to health care providers and managed care support contractors;

(v) the use of prevention and wellness incentives to encourage covered beneficiaries to seek health care services from high-value providers;

(vi) a streamlined enrollment process and timely assignment of primary care managers;

(vii) the elimination of the requirement to seek authorization for referrals for specialty care services;

(viii) the use of incentives to encourage covered beneficiaries to engage in medical and lifestyle intervention programs; and

(ix) the use of financial incentives for contractors and health care providers to receive an equitable share in cost savings resulting from improvements in health outcomes and the experience of care for covered beneficiaries.

(C) Whether the Department has considered, in developing requirements for managed care support contracts under the TRICARE program, the following:

(i) The unique characteristics of providing health care services in Alaska, Hawaii, and the territories and possessions of the United States, and in rural, remote, or isolated locations in the contiguous 48 States;

(ii) The various challenges inherent in developing robust networks of health care providers in those locations.

(iii) A provider reimbursement rate structure in those locations that ensures—

(I) timely access of covered beneficiaries to health care services;

(II) the delivery of high-quality primary and specialty care;

(III) improvement in health outcomes for covered beneficiaries; and

(IV) an enhanced experience of care for covered beneficiaries.

(f) DEFINITIONS.—In this section:

(1) The terms “covered beneficiary” and “TRICARE program” have the meaning given those terms in section 1072 of title 10, United States Code.

(2) The term “high-performing networks of health care providers” means networks of health care providers that, in addition to such other requirements as the Secretary of Defense may specify for purposes of this section, do the following:

(A) Deliver high quality health care as measured by leading health quality measurement organizations such as the National Committee for Quality Assurance and the Agency for Healthcare Research and Quality.

(B) Achieve greater efficiency in the delivery of health care by identifying and implementing within such network improvement opportunities that guide patients through the entire continuum of care, thereby reducing variations in the delivery of health care and preventing medical errors and duplication of medical services.

(C) Improve population-based health outcomes by using a team approach to deliver case management, prevention, and wellness services to high-need and high-cost patients.

(D) Focus on preventive care that emphasizes—

- (i) early detection and timely treatment of disease;
- (ii) periodic health screenings; and
- (iii) education regarding healthy lifestyle behaviors.

(E) Coordinate and integrate health care across the continuum of care, connecting all aspects of the health care received by the patient, including the patient’s health care team.

(F) Facilitate access to health care providers, including—

- (i) after-hours care;
- (ii) urgent care; and
- (iii) through telehealth appointments, when appropriate.

(G) Encourage patients to participate in making health care decisions.

(H) Use evidence-based treatment protocols that improve the consistency of health care and eliminate ineffective, wasteful health care practices.

TITLE VIII—ACQUISITION POLICY, ACQUISITION MANAGEMENT, AND RELATED MATTERS

Subtitle B—Department of Defense Acquisition Agility

SEC. 805. MODULAR OPEN SYSTEM APPROACH IN DEVELOPMENT OF MAJOR WEAPON SYSTEMS.

(a) MODULAR OPEN SYSTEM APPROACH.—

(1) IN GENERAL.—Part IV of subtitle A of title 10, United States Code, is amended by inserting after chapter 144A the following new chapter:

“CHAPTER 144B—WEAPON SYSTEMS DEVELOPMENT AND RELATED MATTERS

“Subchapter	Sec.
“I. Modular Open System Approach in Development of Weapon Systems	2446a
“II. Development, Prototyping, and Deployment of Weapon System Components and Technology	2447a
“III. Cost, Schedule, and Performance of Major Defense Acquisition Programs	2448a

“SUBCHAPTER I—MODULAR OPEN SYSTEM APPROACH IN DEVELOPMENT
OF WEAPON SYSTEMS

“Sec.

“2446a. Requirement for modular open system approach in major defense acquisition programs; definitions.

“2446b. Requirement to address modular open system approach in program capabilities development and acquisition weapon system design.

“2446c. Requirements relating to availability of major system interfaces and support for modular open system approach.

“§ 2446a. Requirement for modular open system approach in major defense acquisition programs; definitions

“(a) MODULAR OPEN SYSTEM APPROACH REQUIREMENT.—A major defense acquisition program that receives Milestone A or Milestone B approval after January 1, 2019, shall be designed and developed, to the maximum extent practicable, with a modular open system approach to enable incremental development and enhance competition, innovation, and interoperability.

“(b) DEFINITIONS.—In this chapter:

“(1) The term ‘modular open system approach’ means, with respect to a major defense acquisition program, an integrated business and technical strategy that—

“(A) employs a modular design that uses major system interfaces between a major system platform and a major system component, between major system components, or between major system platforms;

“(B) is subjected to verification to ensure major system interfaces comply with, if available and suitable, widely supported and consensus-based standards;

“(C) uses a system architecture that allows severable major system components at the appropriate level to be incrementally added, removed, or replaced throughout the life cycle of a major system platform to afford opportunities for enhanced competition and innovation while yielding—

“(i) significant cost savings or avoidance;

“(ii) schedule reduction;

“(iii) opportunities for technical upgrades;

“(iv) increased interoperability, including system of systems interoperability and mission integration; or

“(v) other benefits during the sustainment phase of a major weapon system; and

“(D) complies with the technical data rights set forth in section 2320 of this title.

“(2) The term ‘major system platform’ means the highest level structure of a major weapon system that is not physically mounted or installed onto a higher level structure and on which a major system component can be physically mounted or installed.

“(3) The term ‘major system component’—

“(A) means a high level subsystem or assembly, including hardware, software, or an integrated assembly of both, that can be mounted or installed on a major system platform through well-defined major system interfaces; and

“(B) includes a subsystem or assembly that is likely to have additional capability requirements, is likely to change because of evolving technology or threat, is needed for interoperability, facilitates incremental deployment of capabilities, or is expected to be replaced by another major system component.

“(4) The term ‘major system interface’—

“(A) means a shared boundary between a major system platform and a major system component, between major system components, or between major system platforms, defined by various physical, logical, and functional characteristics, such as electrical, mechanical, fluidic, optical, radio frequency, data, networking, or software elements; and

“(B) is characterized clearly in terms of form, function, and the content that flows across the interface in order to enable technological innovation, incremental improvements, integration, and interoperability.

“(5) The term ‘program capability document’ means, with respect to a major defense acquisition program, a document that specifies capability requirements for the program, such as a capability development document or a capability production document.

“(6) The terms ‘program cost targets’ and ‘fielding target’ have the meanings provided in section 2448a(a) of this title.

“(7) The term ‘major defense acquisition program’ has the meaning provided in section 2430 of this title.

“(8) The term ‘major weapon system’ has the meaning provided in section 2379(f) of this title.

“§ 2446b. Requirement to address modular open system approach in program capabilities development and acquisition weapon system design

“(a) PROGRAM CAPABILITY DOCUMENT.—A program capability document for a major defense acquisition program shall identify and characterize—

“(1) the extent to which requirements for system performance are likely to evolve during the life cycle of the system because of evolving technology, threat, or interoperability needs; and

“(2) for requirements that are expected to evolve, the minimum acceptable capability that is necessary for initial operating capability of the major defense acquisition program.

“(b) ANALYSIS OF ALTERNATIVES.—The Director of Cost Assessment and Performance Evaluation, in formulating study guidance for analyses of alternatives for major defense acquisition programs and performing such analyses under section 139a(d)(4) of this title, shall ensure that any such analysis for a major defense acquisition program includes consideration of evolutionary acquisition, prototyping, and a modular open system approach.

“(c) ACQUISITION STRATEGY.—In the case of a major defense acquisition program that uses a modular open system approach, the acquisition strategy required under section 2431a of this title shall—

“(1) clearly describe the modular open system approach to be used for the program;

“(2) differentiate between the major system platform and major system components being developed under the program, as well as major system components developed outside the program that will be integrated into the major defense acquisition program;

“(3) clearly describe the evolution of major system components that are anticipated to be added, removed, or replaced in subsequent increments;

“(4) identify additional major system components that may be added later in the life cycle of the major system platform;

“(5) clearly describe how intellectual property and related issues, such as technical data deliverables, that are necessary to support a modular open system approach, will be addressed; and

“(6) clearly describe the approach to systems integration and systems-level configuration management to ensure mission and information assurance.

“(d) **REQUEST FOR PROPOSALS.**—The milestone decision authority for a major defense acquisition program that uses a modular open system approach shall ensure that a request for proposals for the development or production phases of the program shall describe the modular open system approach and the minimum set of major system components that must be included in the design of the major defense acquisition program.

“(e) **MILESTONE B.**—A major defense acquisition program may not receive Milestone B approval under section 2366b of this title until the milestone decision authority determines in writing that—

“(1) in the case of a program that uses a modular open system approach—

“(A) the program incorporates clearly defined major system interfaces between the major system platform and major system components, between major system components, and between major system platforms;

“(B) such major system interfaces are consistent with the widely supported and consensus-based standards that exist at the time of the milestone decision, unless such standards are unavailable or unsuitable for particular major system interfaces; and

“(C) the Government has arranged to obtain appropriate and necessary intellectual property rights with respect to such major system interfaces upon completion of the development of the major system platform; or

“(2) in the case of a program that does not use a modular open system approach, that the use of a modular open system approach is not practicable.

“§ 2446c. Requirements relating to availability of major system interfaces and support for modular open system approach

“The Secretary of each military department shall—

“(1) coordinate with the other military departments, the defense agencies, defense and other private sector entities, national standards-setting organizations, and, when appropriate, with elements of the intelligence community with respect to the specification, identification, development, and maintenance of major system interfaces and standards for use in major system platforms, where practicable;

“(2) ensure that major system interfaces incorporate commercial standards and other widely supported consensus-based standards that are validated, published, and maintained by recognized standards organizations to the maximum extent practicable;

“(3) ensure that sufficient systems engineering and development expertise and resources are available to support the use of a modular open system approach in requirements development and acquisition program planning;

“(4) ensure that necessary planning, programming, and budgeting resources are provided to specify, identify, develop, and sustain the modular open system approach, associated major system interfaces, systems integration, and any additional program activities necessary to sustain innovation and interoperability; and

“(5) ensure that adequate training in the use of a modular open system approach is provided to members of the requirements and acquisition workforce.”.

(2) CLERICAL AMENDMENT.—The table of chapters for title 10, United States Code, is amended by adding after the item relating to chapter 144A the following new item:

“144B. **Weapon Systems Development and Related Matters**2446a”.

(3) CONFORMING AMENDMENT.—Section 2366b(a)(3) of such title is amended—

(A) by striking “and” at the end of subparagraph (K); and

(B) by inserting after subparagraph (L) the following new subparagraph:

“(M) the requirements of section 2446b(e) of this title are met; and”.

(4) EFFECTIVE DATE.—Subchapter I of chapter 144B of title 10, United States Code, as added by paragraph (1), shall take effect on January 1, 2017.

(b) REQUIREMENT TO INCLUDE MODULAR OPEN SYSTEM APPROACH IN SELECTED ACQUISITION REPORTS.—Section 2432(c)(1) of such title is amended—

(1) by striking “and” at the end of subparagraph (F);

(2) by redesignating subparagraph (G) as subparagraph (H); and

(3) by inserting after subparagraph (F) the following new subparagraph (G):

“(G) for each major defense acquisition program that receives Milestone B approval after January 1, 2019, a brief summary description of the key elements of the modular open system approach as defined in section 2446a of this title or, if a modular open system approach was not used, the rationale for not using such an approach; and”.

SEC. 809. AMENDMENTS RELATING TO TECHNICAL DATA RIGHTS.

(a) *RIGHTS RELATING TO ITEM OR PROCESS DEVELOPED EXCLUSIVELY AT PRIVATE EXPENSE.*—Subsection (a)(2)(C)(iii) of section 2320 of title 10, United States Code, is amended by inserting after “or process data” the following: “, including such data pertaining to a major system component”.

(b) *RIGHTS RELATING TO INTERFACE OR MAJOR SYSTEM INTERFACE.*—Subsection (a)(2) of section 2320 of such title is further amended—

(1) by redesignating subparagraphs (F) and (G) as subparagraphs (H) and (I), respectively;

(2) in subparagraph (B), by striking “Except as provided in subparagraphs (C) and (D),” and inserting “Except as provided in subparagraphs (C), (D), and (G),”;

(3) in subparagraph (D)(i)(II), by striking “is necessary” and inserting “is a release, disclosure, or use of technical data pertaining to an interface between an item or process and other items or processes necessary”;

(4) in subparagraph (E)—

(A) by striking “In the case” and inserting “Except as provided in subparagraphs (F) and (G), in the case”; and

(B) by striking “negotiations). The United States shall have” and all that follows through “such negotiated rights shall” and inserting the following: “negotiations) and shall be based on negotiations between the United States and the contractor, except in any case in which the Secretary of Defense determines, on the basis of criteria established in the regulations, that negotiations would not be practicable. The establishment of such rights shall”; and

(5) by inserting after subparagraph (E) the following new subparagraphs (F) and (G):

“(F) *INTERFACES DEVELOPED WITH MIXED FUNDING.*—Notwithstanding subparagraph (E), the United States shall have government purpose rights in technical data pertaining to an interface between an item or process and other items or processes that was developed in part with Federal funds and in part at private expense, except in any case in which the Secretary of Defense determines, on the basis of criteria established in the regulations, that negotiation of different rights in such technical data would be in the best interest of the United States.

“(G) *MAJOR SYSTEM INTERFACES DEVELOPED EXCLUSIVELY AT PRIVATE EXPENSE OR WITH MIXED FUNDING.*—Notwithstanding subparagraphs (B) and (E), the United States shall have government purpose rights in technical data pertaining to a major system interface developed exclusively at private expense or in part with Federal funds and in part at private expense and used in a modular open system approach pursuant to section 2446a of this title, except in any case in which the Secretary of Defense determines that negotiation of different rights in such technical data would be in the best interest of the United States. Such major system interface shall be identified in the contract solicitation and the contract. For technical data pertaining to a major system interface developed exclusively at private expense for which the United States asserts government purpose rights, the Secretary of Defense shall negotiate with the contractor the appropriate and reasonable compensation for such technical data.”.

(c) *AMENDMENT RELATING TO DEFERRED ORDERING.*—Subsection (b)(9) of section 2320 of such title is amended—

(1) by striking “at any time” and inserting “, until the date occurring six years after acceptance of the last item (other than technical data) under a contract or the date of contract termination, whichever is later,”;

(2) by striking “or utilized in the performance of a contract” and inserting “in the performance of the contract”; and

(3) by striking clause (ii) of subparagraph (B) and inserting the following:

“(ii) is described in subparagraphs (D)(i)(II), (F), and (G) of subsection (a)(2); and”.

(d) DEFINITIONS.—Section 2320 of such title is further amended—

(1) in subsection (f), by inserting “COVERED GOVERNMENT SUPPORT CONTRACTOR DEFINED.—” before “In this section”; and

(2) by adding at the end the following new subsection:

“(g) ADDITIONAL DEFINITIONS.—In this section, the terms ‘major system component’, ‘major system interface’, and ‘modular open system approach’ have the meanings provided in section 2446a of this title.”.

(e) AMENDMENTS TO ADD CERTAIN HEADINGS FOR READABILITY.—Section 2320(a) of such title is further amended—

(1) in subparagraph (A) of paragraph (2), by inserting after “(A)” the following: “DEVELOPMENT EXCLUSIVELY WITH FEDERAL FUNDS.—”;

(2) in subparagraph (B) of such paragraph, by inserting after “(B)” the following: “DEVELOPMENT EXCLUSIVELY AT PRIVATE EXPENSE.—”;

(3) in subparagraph (C) of such paragraph, by inserting after “(C)” the following: “EXCEPTION TO SUBPARAGRAPH (B).—”;

(4) in subparagraph (D) of such paragraph, by inserting after “(D)” the following: “EXCEPTION TO SUBPARAGRAPH (B).—”; and

(5) in subparagraph (E) of such paragraph, by inserting after “(E)” the following: “DEVELOPMENT WITH MIXED FUNDING.—”.

(f) GOVERNMENT-INDUSTRY ADVISORY PANEL AMENDMENTS.—Section 813(b) of the National Defense Authorization Act for Fiscal Year 2016 (Public Law 114-92; 129 Stat. 892) is amended—

(1) by adding at the end of paragraph (1) the following: “The panel shall develop recommendations for changes to sections 2320 and 2321 of title 10, United States Code, and the regulations implementing such sections.”;

(2) in paragraph (3)—

(A) by redesignating subparagraphs (D) and (E) as subparagraphs (E) and (F), respectively; and

(B) by inserting after subparagraph (C) the following new subparagraph (D):

“(D) Ensuring that the Department of Defense and Department of Defense contractors have the technical data rights necessary to support the modular open system approach requirement set forth in section 2446a of title 10, United States Code, taking into consideration the distinct characteristics of major system platforms, major system interfaces, and major system components developed exclu-

sively with Federal funds, exclusively at private expense, and with a combination of Federal funds and private expense.”; and

(3) by amending paragraph (4) to read as follows:

“(4) *FINAL REPORT.*—Not later than February 1, 2017, the advisory panel shall submit its final report and recommendations to the Secretary of Defense and the congressional defense committees. Not later than 60 days after receiving the report, the Secretary shall submit any comments or recommendations to the congressional defense committees.”.

Subtitle C—Amendments to General Contracting Authorities, Procedures, and Limitations

SEC. 811. MODIFIED RESTRICTIONS ON UNDEFINITIZED CONTRACTUAL ACTIONS.

Section 2326 of title 10, United States Code, is amended—

(1) in subsection (e)—

(A) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B);

(B) by inserting “(1)” before “The head”; and

(C) by adding at the end the following new paragraph:

“(2) If a contractor submits a qualifying proposal to definitize an undefinitized contractual action and the contracting officer for such action definitizes the contract after the end of the 180-day period beginning on the date on which the contractor submitted the qualifying proposal, the head of the agency concerned shall ensure that the profit allowed on the contract accurately reflects the cost risk of the contractor as such risk existed on the date the contractor submitted the qualifying proposal.”;

(2) by redesignating subsections (f) and (g) as subsections (h) and (i), respectively;

(3) by inserting after subsection (e) the following new subsections:

“(f) *TIME LIMIT.*—No undefinitized contractual action may extend beyond 90 days without a written determination by the Secretary of the military department concerned, the head of the Defense Agency concerned, the commander of the combatant command concerned, or the Under Secretary of Defense for Acquisition, Technology, and Logistics (as applicable) that it is in the best interests of the military department, the Defense Agency, the combatant command, or the Department of Defense, respectively, to continue the action.

“(g) *FOREIGN MILITARY CONTRACTS.*—(1) Except as provided in paragraph (2), a contracting officer of the Department of Defense may not enter into an undefinitized contractual action for a foreign military sale unless the contractual action provides for agreement upon contractual terms, specifications, and price by the end of the 180-day period described in subsection (b)(1)(A).

“(2) The requirement under paragraph (1) may be waived in accordance with subsection (b)(4).”; and

(4) in subsection (i), as redesignated by paragraph (2)—

(A) in paragraph (1)—

(i) by striking subparagraph (A); and

(ii) by redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively; and
 (B) in paragraph (2), by striking “complete and meaningful audits” and all that follows through the period and inserting “a meaningful audit of the information contained in the proposal.”.

SEC. 812. AMENDMENTS RELATING TO INVENTORY AND TRACKING OF PURCHASES OF SERVICES.

(a) **INCREASED THRESHOLD.**—Subsection (a) of section 2330a of title 10, United States Code, is amended by striking “in excess of the simplified acquisition threshold” and inserting “in excess of \$3,000,000”.

(b) **SPECIFICATION OF SERVICES.**—Subsection (a) of such section is further amended by striking the period at the end and inserting the following: “; for services in the following service acquisition portfolio groups:

“(1) Logistics management services.

“(2) Equipment related services.

“(3) Knowledge-based services.

“(4) Electronics and communications services.”.

(c) **INVENTORY SUMMARY.**—Subsection (c) of such section is amended—

(1) by striking “(c) INVENTORY.—” and inserting “(c) INVENTORY SUMMARY.—”; and

(2) in paragraph (1), by striking “submit to Congress an annual inventory” and all that follows through “for or on behalf” and inserting “prepare an annual inventory, and submit to Congress a summary of the inventory, of activities performed during the preceding fiscal year pursuant to staff augmentation contracts on behalf”.

(d) **ELIMINATION OF CERTAIN REQUIREMENTS.**—Such section is further amended—

(1) by striking subsections (d), (g), and (h); and

(2) by redesignating subsections (e), (f), (i), and (j) as subsections (d), (e), (g), and (h), respectively.

(e) **SPECIFICATION OF SERVICES TO BE REVIEWED.**—Subsection (d), as so redesignated, of such section, is amended in paragraph (1) by inserting after “responsible” the following: “; with particular focus and attention on the following categories of high-risk product service codes (also referred to as Federal supply codes):

“(A) Special studies or analysis that is not research and development.

“(B) Information technology and telecommunications.

“(C) Support, including professional, administrative, and management.”.

(f) **COMPTROLLER GENERAL REPORT.**—Such section is further amended by inserting after subsection (e), as so redesignated, the following new subsection (f):

“(f) **COMPTROLLER GENERAL REPORT.**—Not later than March 31, 2018, the Comptroller General of the United States shall submit to the congressional defense committees a report on the status of the data collection required in subsection (a) and an assessment of the efforts by the Department of Defense to implement subsection (e).”.

(g) *DEFINITIONS.*—Subsection (h), as so redesignated, of such section is amended by adding at the end the following new paragraphs:

“(6) The term ‘service acquisition portfolio groups’ means the groups identified in Department of Defense Instruction 5000.74, *Defense Acquisition of Services* (January 5, 2016) or successor guidance.

“(7) The term ‘staff augmentation contracts’ means services contracts for personnel who are physically present in a Government work space on a full-time or permanent part-time basis, for the purpose of advising on, providing support to, or assisting a Government agency in the performance of the agency’s missions, including authorized personal services contracts (as that term is defined in section 2330a(g)(5) of this title).”

SEC. 813. USE OF LOWEST PRICE TECHNICALLY ACCEPTABLE SOURCE SELECTION PROCESS.

(a) *STATEMENT OF POLICY.*—It shall be the policy of the Department of Defense to avoid using lowest price technically acceptable source selection criteria in circumstances that would deny the Department the benefits of cost and technical tradeoffs in the source selection process.

(b) *REVISION OF DEFENSE FEDERAL ACQUISITION REGULATION SUPPLEMENT.*—Not later than 120 days after the date of the enactment of this Act, the Secretary of Defense shall revise the Defense Federal Acquisition Regulation Supplement to require that, for solicitations issued on or after the date that is 120 days after the date of the enactment of this Act, lowest price technically acceptable source selection criteria are used only in situations in which—

(1) the Department of Defense is able to comprehensively and clearly describe the minimum requirements expressed in terms of performance objectives, measures, and standards that will be used to determine acceptability of offers;

(2) the Department of Defense would realize no, or minimal, value from a contract proposal exceeding the minimum technical or performance requirements set forth in the request for proposal;

(3) the proposed technical approaches will require no, or minimal, subjective judgment by the source selection authority as to the desirability of one offeror’s proposal versus a competing proposal;

(4) the source selection authority has a high degree of confidence that a review of technical proposals of offerors other than the lowest bidder would not result in the identification of factors that could provide value or benefit to the Department;

(5) the contracting officer has included a justification for the use of a lowest price technically acceptable evaluation methodology in the contract file; and

(6) the Department of Defense has determined that the lowest price reflects full life-cycle costs, including for operations and support.

(c) *AVOIDANCE OF USE OF LOWEST PRICE TECHNICALLY ACCEPTABLE SOURCE SELECTION CRITERIA IN CERTAIN PROCUREMENTS.*—To the maximum extent practicable, the use of lowest price technically acceptable source selection criteria shall be avoided in the case of a procurement that is predominately for the acquisition of—

(1) *information technology services, cybersecurity services, systems engineering and technical assistance services, advanced electronic testing, audit or audit readiness services, or other knowledge-based professional services;*

(2) *personal protective equipment; or*

(3) *knowledge-based training or logistics services in contingency operations or other operations outside the United States, including in Afghanistan or Iraq.*

(d) *REPORTING.*—Not later than December 1, 2017, and annually thereafter for three years, the Comptroller General of the United States shall submit to the congressional defense committees a report on the number of instances in which lowest price technically acceptable source selection criteria is used for a contract exceeding \$10,000,000, including an explanation of how the situations listed in subsection (b) were considered in making a determination to use lowest price technically acceptable source selection criteria.

SEC. 814. PROCUREMENT OF PERSONAL PROTECTIVE EQUIPMENT.

(a) *LIMITATION.*—Not later than 90 days after the date of the enactment of this Act, the Defense Federal Acquisition Regulation Supplement shall be revised—

(1) *to prohibit the use by the Department of Defense of reverse auctions or lowest price technically acceptable contracting methods for the procurement of personal protective equipment if the level of quality or failure of the item could result in combat casualties; and*

(2) *to establish a preference for the use of best value contracting methods for the procurement of such equipment.*

(b) *CONFORMING AMENDMENT.*—Section 884 of the National Defense Authorization Act for Fiscal Year 2016 (Public Law 114–92; 129 Stat. 948; 10 U.S.C. 2302 note) is hereby repealed.

SEC. 815. AMENDMENTS RELATED TO DETECTION AND AVOIDANCE OF COUNTERFEIT ELECTRONIC PARTS.

Section 818 of the National Defense Authorization Act for Fiscal Year 2012 (Public Law 112–81; 10 U.S.C. 2302 note) is amended—

(1) *in paragraph (3) of subsection (c)—*

(A) *by striking the heading and inserting “SUPPLIERS MEETING ANTICOUNTERFEITING REQUIREMENTS.—”;*

(B) *in subparagraph (A)(i), by striking “trusted suppliers in accordance with regulations issued pursuant to subparagraph (C) or (D) who” and inserting “suppliers that meet anticounterfeiting requirements in accordance with regulations issued pursuant to subparagraph (C) or (D) and that”;*

(C) *in subparagraphs (A)(ii) and (A)(iii), by striking “trusted suppliers” each place it appears and inserting “suppliers that meet anticounterfeiting requirements”;*

(D) *in subparagraph (C), by striking “as trusted suppliers those” and inserting “suppliers”;*

(E) *in subparagraph (D) in the matter preceding clause (i), by striking “trusted suppliers” and inserting “suppliers that meet anticounterfeiting requirements”;* and

(F) *in subparagraphs (D)(i) and (D)(iii), by striking “trusted” each place it appears; and*

(2) in subsection (e)(2)(A)(v), by striking “use of trusted suppliers” and inserting “the use of suppliers that meet applicable anticounterfeiting requirements”.

SEC. 816. AMENDMENTS TO SPECIAL EMERGENCY PROCUREMENT AUTHORITY.

Section 1903(a) of title 41, United States Code, is amended—

- (1) by striking “or” at the end of paragraph (1);
- (2) by striking the period at the end of paragraph (2) and inserting a semicolon; and
- (3) by adding after paragraph (2) the following new paragraphs:

“(3) in support of a request from the Secretary of State or the Administrator of the United States Agency for International Development to facilitate the provision of international disaster assistance pursuant to chapter 9 of part I of the Foreign Assistance Act of 1961 (22 U.S.C. 2292 et seq.); or

“(4) in support of an emergency or major disaster (as those terms are defined in section 102 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122)).”.

SEC. 817. COMPLIANCE WITH DOMESTIC SOURCE REQUIREMENTS FOR FOOTWEAR FURNISHED TO ENLISTED MEMBERS OF THE ARMED FORCES UPON THEIR INITIAL ENTRY INTO THE ARMED FORCES.

Section 418 of title 37, United States Code, is amended by adding at the end the following new subsection:

“(d)(1) In the case of athletic footwear needed by members of the Army, Navy, Air Force, or Marine Corps upon their initial entry into the armed forces, the Secretary of Defense shall furnish such footwear directly to the members instead of providing a cash allowance to the members for the purchase of such footwear.

“(2) In procuring athletic footwear to comply with paragraph (1), the Secretary of Defense shall—

“(A) procure athletic footwear that complies with the requirements of section 2533a of title 10, without regard to the applicability of any simplified acquisition threshold under chapter 137 of title 10 (or any other provision of law); and

“(B) procure additional athletic footwear, for two years following the date of the enactment of the National Defense Authorization Act for Fiscal Year 2017, that is necessary to provide a member described in paragraph (1) with sufficient choices in athletic shoes so as to minimize the incidence of athletic injuries and potential unnecessary harm and risk to the safety and well-being of members in initial entry training.

“(3) This subsection does not prohibit the provision of a cash allowance to a member described in paragraph (1) for the purchase of athletic footwear if such footwear—

“(A) is medically required to meet unique physiological needs of the member; and

“(B) cannot be met with athletic footwear that complies with the requirements of this subsection.”.

SEC. 820. DEFENSE COST ACCOUNTING STANDARDS.**(a) AMENDMENTS TO THE COST ACCOUNTING STANDARDS BOARD.—**

(1) IN GENERAL.—Section 1501 of title 41, United States Code, is amended—

(A) in subsection (b)(1)(B)(ii), by inserting “and, if possible, is a representative of a public accounting firm” after “systems”;

(B) by redesignating subsections (c) through (f) as subsections (f) through (i), respectively;

(C) by inserting after subsection (b) the following new subsections:

“(c) DUTIES.—The Board shall—

“(1) ensure that the cost accounting standards used by Federal contractors rely, to the maximum extent practicable, on commercial standards and accounting practices and systems;

“(2) within one year after the date of enactment of this subsection, and on an ongoing basis thereafter, review any cost accounting standards established under section 1502 of this title and conform such standards, where practicable, to Generally Accepted Accounting Principles; and

“(3) annually review disputes involving such standards brought to the boards established in section 7105 of this title or Federal courts, and consider whether greater clarity in such standards could avoid such disputes.

“(d) MEETINGS.—The Board shall meet not less than once each quarter and shall publish in the Federal Register notice of each meeting and its agenda before such meeting is held.

“(e) REPORT.—The Board shall annually submit a report to the congressional defense committees, the Committee on Oversight and Government Reform of the House of Representatives, and the Committee on Homeland Security and Governmental Affairs of the Senate describing the actions taken during the prior year—

“(1) to conform the cost accounting standards established under section 1502 of this title with Generally Accepted Accounting Principles; and

“(2) to minimize the burden on contractors while protecting the interests of the Federal Government.”; and

(D) by amending subsection (f) (as so redesignated) to read as follows:

“(f) SENIOR STAFF.—The Administrator, after consultation with the Board—

“(1) without regard to the provisions of title 5 governing appointments in the competitive service—

“(A) shall appoint an executive secretary; and

“(B) may appoint, or detail pursuant to section 3341 of title 5, two additional staff members; and

“(2) may pay those employees without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5 relating to classification and General Schedule pay rates, except that those employees may not receive pay in excess of the maximum rate of basic pay payable for level IV of the Executive Schedule.”.

(2) *VALUE OF CONTRACTS ELIGIBLE FOR WAIVER.*—Section 1502(b)(3)(A) of title 41, United States Code, is amended by striking “\$15,000,000” and inserting “\$100,000,000”.

(3) *CONFORMING AMENDMENTS.*—Section 1501(i) of title 41, United States Code (as redesignated by paragraph (1)), is amended—

(A) in paragraph (1), by striking “subsection (e)(1)” and inserting “subsection (h)(1)”; and

(B) in paragraph (3), by striking “subsection (e)(2)” and inserting “subsection (h)(2)”.

(b) *DEFENSE COST ACCOUNTING STANDARDS BOARD.*—

(1) *IN GENERAL.*—Chapter 7 of title 10, United States Code, is amended by adding at the end the following new section:

“§ 190. Defense Cost Accounting Standards Board

“(a) *ORGANIZATION.*—The Defense Cost Accounting Standards Board is an independent board in the Office of the Secretary of Defense.

“(b) *MEMBERSHIP.*—(1) The Board consists of seven members. One member is the Chief Financial Officer of the Department of Defense or a designee of the Chief Financial Officer, who serves as Chairman. The other six members, all of whom shall have experience in contract pricing, finance, or cost accounting, are as follows:

“(A) Three representatives of the Department of Defense appointed by the Secretary of Defense; and

“(B) Three individuals from the private sector, each of whom is appointed by the Secretary of Defense, and—

“(i) one of whom is a representative of a nontraditional defense contractor (as defined in section 2302(9) of this title); and

“(ii) one of whom is a representative from a public accounting firm.

“(2) A member appointed under paragraph (1)(A) may not continue to serve after ceasing to be an officer or employee of the Department of Defense.

“(c) *DUTIES OF THE CHAIRMAN.*—The Chief Financial Officer of the Department of Defense, after consultation with the Defense Cost Accounting Standards Board, shall prescribe rules and procedures governing actions of the Board under this section.

“(d) *DUTIES.*—The Defense Cost Accounting Standards Board—

“(1) shall review cost accounting standards established under section 1502 of title 41 and recommend changes to such cost accounting standards to the Cost Accounting Standards Board established under section 1501 of such title;

“(2) has exclusive authority, with respect to the Department of Defense, to implement such cost accounting standards to achieve uniformity and consistency in the standards governing measurement, assignment, and allocation of costs to contracts with the Department of Defense; and

“(3) shall develop standards to ensure that commercial operations performed by Government employees at the Department of Defense adhere to cost accounting standards (based on cost accounting standards established under section 1502 of title 41 or Generally Accepted Accounting Principles) that inform managerial decisionmaking.

“(e) **COMPENSATION.**—(1) *Members of the Defense Cost Accounting Standards Board who are officers or employees of the Department of Defense shall not receive additional compensation for services but shall continue to be compensated by the Department of Defense.*

“(2) *Each member of the Board appointed from the private sector shall receive compensation at a rate not to exceed the daily equivalent of the rate for level IV of the Executive Schedule for each day (including travel time) in which the member is engaged in the actual performance of duties vested in the Board.*

“(3) *While serving away from home or regular place of business, Board members and other individuals serving on an intermittent basis shall be allowed travel expenses in accordance with section 5703 of title 5.*

“(f) **AUDITING REQUIREMENTS.**—(1) *Notwithstanding any other provision of law, contractors with the Department of Defense may present, and the Defense Contract Audit Agency shall accept without performing additional audits, a summary of audit findings prepared by a commercial auditor if—*

“(A) *the auditor previously performed an audit of the allowability, measurement, assignment to accounting periods, and allocation of indirect costs of the contractor; and*

“(B) *such audit was performed using relevant commercial accounting standards (such as Generally Accepted Accounting Principles) and relevant commercial auditing standards established by the commercial auditing industry for the relevant accounting period.*

“(2) *The Defense Contract Audit Agency may audit direct costs of Department of Defense cost contracts and shall rely on commercial audits of indirect costs without performing additional audits, except that in the case of companies or business units that have a predominance of cost-type contracts as a percentage of sales, the Defense Contract Audit Agency may audit both direct and indirect costs.”*

(2) **CLERICAL AMENDMENT.**—*The table of sections at the beginning of chapter 7 of such title is amended by adding after the item relating to section 189 the following new item:*

“190. *Defense Cost Accounting Standards Board.*”

(c) **REPORT.**—*Not later than December 31, 2019, the Comptroller General of the United States shall submit to the congressional defense committees a report on the adequacy of the method used by the Cost Accounting Standards Board established under section 1501 of title 41, United States Code, to apply cost accounting standards to indirect and fixed price incentive contracts.*

(d) **EFFECTIVE DATE.**—*The amendments made by this section shall take effect on October 1, 2018.*

SEC. 821. INCREASED MICRO-PURCHASE THRESHOLD APPLICABLE TO DEPARTMENT OF DEFENSE PROCUREMENTS.

(a) **INCREASED MICRO-PURCHASE THRESHOLD.**—*Chapter 137 of title 10, United States Code, is amended by adding at the end the following new section:*

“§ 2338. Micro-purchase threshold

“Notwithstanding subsection (a) of section 1902 of title 41, the micro-purchase threshold for the Department of Defense for purposes of such section is \$5,000.”

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of such chapter is amended by adding at the end the following new item:

“2338. Micro-purchase threshold.”

SEC. 822. ENHANCED COMPETITION REQUIREMENTS.

Section 2306a of title 10, United States Code, is amended—

(1) in subsection (a)(1)(A), by inserting “that is only expected to receive one bid” after “entered into using procedures other than sealed-bid procedures”; and

(2) in subsection (b)—

(A) in paragraph (1)(A)(i), by striking “price competition” and inserting “competition that results in at least two or more responsive and viable competing bids”; and

(B) by adding at the end the following new paragraph:

“(6) DETERMINATION BY PRIME CONTRACTOR.—A prime contractor required to submit certified cost or pricing data under subsection (a) with respect to a prime contract shall be responsible for determining whether a subcontract under such contract qualifies for an exception under paragraph (1)(A) from such requirement.”

SEC. 824. TREATMENT OF INDEPENDENT RESEARCH AND DEVELOPMENT COSTS ON CERTAIN CONTRACTS.

(a) INDEPENDENT RESEARCH AND DEVELOPMENT COSTS: ALLOWABLE COSTS.—

(1) IN GENERAL.—Section 2372 of title 10, United States Code, is amended to read as follows:

“§ 2372. Independent research and development costs: allowable costs

“(a) REGULATIONS.—The Secretary of Defense shall prescribe regulations governing the payment by the Department of Defense of expenses incurred by contractors for independent research and development costs. Such regulations shall provide that expenses incurred for independent research and development shall be reported independently from other allowable indirect costs.

“(b) COSTS TREATED AS FAIR AND REASONABLE, AND ALLOWABLE, EXPENSES.—The regulations prescribed under subsection (a) shall provide that independent research and development costs shall be considered a fair and reasonable, and allowable, indirect expense on Department of Defense contracts.

“(c) ADDITIONAL CONTROLS.—Subject to subsection (d), the regulations prescribed under subsection (a) may include the following provisions:

“(1) Controls on the reimbursement of costs to the contractor for expenses incurred for independent research and development to ensure that such costs were incurred for independent research and development.

“(2) Implementation of regular methods for transmission—

“(A) from the Department of Defense to contractors, in a reasonable manner, of timely and comprehensive information regarding planned or expected needs of the Department of Defense for future technology and advanced capability; and

“(B) from contractors to the Department of Defense, in a reasonable manner, of information regarding progress by the contractor on the independent research and development programs of the contractor.

“(d) LIMITATIONS ON REGULATIONS.—Regulations prescribed under subsection (a) may not include provisions that would infringe on the independence of a contractor to choose which technologies to pursue in its independent research and development program if the chief executive officer of the contractor determines that expenditures will advance the needs of the Department of Defense for future technology and advanced capability as transmitted pursuant to subsection (c)(3)(A).

“(e) EFFECTIVE DATE.—The regulations prescribed under subsection (a) shall apply to indirect costs incurred on or after October 1, 2017.”

(2) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 139 is amended by striking the item relating to section 2372 and inserting the following new item:

“2372. Independent research and development costs: allowable costs”.

(b) BID AND PROPOSAL COSTS: ALLOWABLE COSTS.—

(1) IN GENERAL.—Chapter 139 of title 10, United States Code, is amended by inserting after section 2372 the following new section:

“§ 2372a. Bid and proposal costs: allowable costs

“(a) REGULATIONS.—The Secretary of Defense shall prescribe regulations governing the payment by the Department of Defense of expenses incurred by contractors for bid and proposal costs. Such regulations shall provide that expenses incurred for bid and proposal costs shall be reported independently from other allowable indirect costs.

“(b) COSTS ALLOWABLE AS INDIRECT EXPENSES.—The regulations prescribed under subsection (a) shall provide that bid and proposal costs shall be allowable as indirect expenses on covered contracts, as defined in section 2324(l) of this title, to the extent that those costs are allocable, reasonable, and not otherwise unallowable by law or under the Federal Acquisition Regulation.

“(c) GOAL FOR REIMBURSABLE BID AND PROPOSAL COSTS.—The Secretary shall establish a goal each fiscal year limiting the amount of reimbursable bid and proposal costs paid by the Department of Defense to an amount equal to not more than one percent of the total aggregate industry sales to the Department of Defense. To achieve such goal, the Secretary may not limit the payment of allowable bid and proposal costs for the covered year.

“(d) **PANEL.**—(1) *If the Department of Defense exceeds the goal established under subsection (c) for a fiscal year, within 180 days after exceeding the goal, the Secretary shall establish an advisory panel. The panel shall be supported by the Defense Acquisition University and the National Defense University, including administrative support.*

“(2) *The panel shall be composed of nine individuals who are recognized experts in acquisition and procurement policy appointed by the Secretary. In making such appointments, the Secretary shall ensure that the members of the panel reflect diverse experiences in the public and private sector.*

“(3) *The panel shall review laws, regulations, and practices that contribute to the expenses incurred by contractors for bids and proposals in the fiscal year concerned and recommend changes to such laws, regulations, and practices that may reduce expenses incurred by contractors for bids and proposals.*

“(4)(A) *Not later than six months after the establishment of the panel, the panel shall submit to the Secretary and the congressional defense committees an interim report on the findings of the panel.*

“(B) *Not later than one year after the establishment of the panel, the panel shall submit to the Secretary and the congressional defense committees a final report on the findings of the panel.*

“(5) *The panel shall terminate on the day the panel submits the final report under paragraph (4)(B).*

“(6) *The Secretary of Defense may use amounts available in the Department of Defense Acquisition Workforce Development Fund established under section 1705 of this title to support the activities of the panel established under this subsection.*

“(e) **EFFECTIVE DATE.**—*The regulations prescribed under subsection (a) shall apply to indirect costs incurred on or after October 1, 2017.*”

(2) **CLERICAL AMENDMENT.**—*The table of sections at the beginning of chapter 139 of such title is amended by inserting the following new item:*

“2372a. Bid and proposal costs: allowable costs”.

(c) **REPORT ON ELEMENTS CONTRIBUTING TO EXPENSES INCURRED BY CONTRACTORS FOR BIDS AND PROPOSALS.**—

(1) **IN GENERAL.**—*Not later than 90 days after the date of the enactment of this Act, the Secretary of Defense shall enter into a contract with an independent entity to study the laws, regulations, and practices relating to expenses incurred by contractors for bids and proposals.*

(2) **REPORT.**—*Not later than 180 days after receipt of the contract required by paragraph (1), the independent entity shall submit to the Department of Defense and the congressional defense committees a report on the laws, regulations, or practices relating to expenses incurred by contractors for bids and recommendations for changes to such laws, regulations, or practices that may reduce expenses incurred by contractors for bids and proposals.*

(d) DEFENSE CONTRACT AUDIT AGENCY: ANNUAL REPORT.—

(1) IN GENERAL.—Subsection (a) of section 2313a of title 10, United States Code, is amended—

(A) by redesignating paragraphs (4) and (5) as paragraphs (6) and (7), respectively; and

(B) by inserting after paragraph (3) the following new paragraphs:

“(3) a summary, set forth separately by dollar amount and percentage, of indirect costs for independent research and development incurred by contractors in the previous fiscal year;

“(4) a summary, set forth separately by dollar amount and percentage, of indirect costs for bid and proposal costs incurred by contractors in the previous fiscal year;”.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on October 1, 2018.

SEC. 825. EXCEPTION TO REQUIREMENT TO INCLUDE COST OR PRICE TO THE GOVERNMENT AS A FACTOR IN THE EVALUATION OF PROPOSALS FOR CERTAIN MULTIPLE-AWARD TASK OR DELIVERY ORDER CONTRACTS.

(a) EXCEPTION TO REQUIREMENT TO INCLUDE COST OR PRICE AS FACTOR.—Section 2305(a)(3) of title 10, United States Code, is amended—

(1) in subparagraph (A)—

(A) in clause (i), by inserting “(except as provided in subparagraph (C))” after “shall”; and

(B) in clause (ii), by inserting “(except as provided in subparagraph (C))” after “shall”; and

(2) by adding at the end the following new subparagraphs:
“(C) If the head of an agency issues a solicitation for multiple task or delivery order contracts under section 2304a(d)(1)(B) of this title for the same or similar services and intends to make a contract award to each qualifying offeror—

“(i) cost or price to the Federal Government need not, at the Government’s discretion, be considered under clause (ii) of subparagraph (A) as an evaluation factor for the contract award; and

“(ii) if, pursuant to clause (i), cost or price to the Federal Government is not considered as an evaluation factor for the contract award—

“(I) the disclosure requirement of clause (iii) of subparagraph (A) shall not apply; and

“(II) cost or price to the Federal Government shall be considered in conjunction with the issuance pursuant to section 2304c(b) of this title of a task or delivery order under any contract resulting from the solicitation.

“(D) In subparagraph (C), the term ‘qualifying offeror’ means an offeror that—

“(i) is determined to be a responsible source;

“(ii) submits a proposal that conforms to the requirements of the solicitation; and

“(iii) the contracting officer has no reason to believe would likely offer other than fair and reasonable pricing.

“(E) Subparagraph (C) shall not apply to multiple task or delivery order contracts if the solicitation provides for sole source task or delivery order contracts pursuant to section 8(a) of the Small Business Act (15 U.S.C. 637(a)).”.

(b) **AMENDMENT TO PROCEDURES RELATING TO ORDERS UNDER MULTIPLE-AWARD CONTRACTS.**—Section 2304c(b) of title 10, United States Code, is amended—

- (1) in paragraph (3), by striking “or” at the end;
- (2) in paragraph (4), by striking the period at the end and inserting “; or”; and
- (3) by adding at the end the following new paragraph:
 - “(5) the task or delivery order satisfies one of the exceptions in section 2304(c) of this title to the requirement to use competitive procedures.”.

SEC. 826. EXTENSION OF PROGRAM FOR COMPREHENSIVE SMALL BUSINESS CONTRACTING PLANS.

Section 834(e) of the National Defense Authorization Act for Fiscal Years 1990 and 1991 (15 U.S.C. 637 note) is amended by striking “December 31, 2017” and inserting “December 31, 2027”.

SEC. 829. PREFERENCE FOR FIXED-PRICE CONTRACTS.

(a) **ESTABLISHMENT OF PREFERENCE.**—Not later than 180 days after the date of the enactment of this Act, the Defense Federal Acquisition Regulation Supplement shall be revised to establish a preference for fixed-price contracts, including fixed-price incentive fee contracts, in the determination of contract type.

(b) **APPROVAL REQUIREMENT FOR CERTAIN COST-TYPE CONTRACTS.**—

(1) **IN GENERAL.**—A contracting officer of the Department of Defense may not enter into a cost-type contract described in paragraph (2) unless the contract is approved by the service acquisition executive of the military department concerned, the head of the Defense Agency concerned, the commander of the combatant command concerned, or the Under Secretary of Defense for Acquisition, Technology, and Logistics (as applicable).

(2) **COVERED CONTRACTS.**—A contract described in this paragraph is—

(A) a cost-type contract in excess of \$50,000,000, in the case of a contract entered into on or after October 1, 2018, and before October 1, 2019; and

(B) a cost-type contract in excess of \$25,000,000, in the case of a contract entered into on or after October 1, 2019.

SEC. 830. REQUIREMENT TO USE FIRM FIXED-PRICE CONTRACTS FOR FOREIGN MILITARY SALES.

(a) **REQUIREMENT.**—Not later than 180 days after the date of the enactment of this Act, the Secretary of Defense shall prescribe regulations to require the use of firm fixed-price contracts for foreign military sales.

(b) **EXCEPTIONS.**—The regulations prescribed pursuant to subsection (a) shall include exceptions that may be exercised if the foreign country that is the counterparty to a foreign military sale—

(1) has established in writing a preference for a different contract type; or

(2) requests in writing that a different contract type be used for a specific foreign military sale.

(c) **WAIVER AUTHORITY.**—The regulations prescribed pursuant to subsection (a) shall include a waiver that may be exercised by the Secretary of Defense or his designee if the Secretary or his designee determines on a case-by-case basis that a different contract type is in the best interest of the United States and American taxpayers.

(d) PILOT PROGRAM FOR ACCELERATION OF FOREIGN MILITARY SALES.—

(1) IN GENERAL.—The Secretary of Defense shall establish a pilot program to reform and accelerate the contracting and pricing processes associated with full rate production of major weapon systems for no more than 10 foreign military sales contracts by—

(A) basing price reasonableness determinations on actual cost and pricing data for purchases of the same product for the Department of Defense; and

(B) reducing the cost and pricing data to be submitted in accordance with section 2306a of title 10, United States Code.

(2) EXPIRATION OF AUTHORITY.—Authority for the pilot program under this subsection expires on January 1, 2020.

SEC. 831. PREFERENCE FOR PERFORMANCE-BASED CONTRACT PAYMENTS.

(a) IN GENERAL.—Section 2307(b) of title 10, United States Code, is amended—

(1) in the subsection heading, by inserting “PREFERENCE FOR” before “PERFORMANCE-BASED”;

(2) by redesignating paragraphs (1), (2), and (3) as subparagraphs (A), (B), and (C), respectively;

(3) by striking “Wherever practicable, payment under subsection (a) shall be made” and inserting “(1) Whenever practicable, payments under subsection (a) shall be made using performance-based payments”; and

(4) by adding at the end the following new paragraphs:

“(2) Performance-based payments shall not be conditioned upon costs incurred in contract performance but on the achievement of performance outcomes listed in paragraph (1).

“(3) The Secretary of Defense shall ensure that nontraditional defense contractors and other private sector companies are eligible for performance-based payments, consistent with best commercial practices.

“(4)(A) In order to receive performance-based payments, a contractor’s accounting system shall be in compliance with Generally Accepted Accounting Principles, and there shall be no requirement for a contractor to develop Government-unique accounting systems or practices as a prerequisite for agreeing to receive performance-based payments.

“(B) Nothing in this section shall be construed to grant the Defense Contract Audit Agency the authority to audit compliance with Generally Accepted Accounting Principles.”.

(b) REGULATIONS.—Not later than 120 days after the date of the enactment of this Act, the Secretary of Defense shall revise the Department of Defense Federal Acquisition Regulation Supplement to conform with section 2307(b) of title 10, United States Code, as amended by subsection (a).

SEC. 835. PROTECTION OF TASK ORDER COMPETITION.

(a) AMENDMENT TO VALUE OF AUTHORIZED TASK ORDER PROTESTS.—Section 2304c(e)(1)(B) of title 10, United States Code, is amended by striking “\$10,000,000” and inserting “\$25,000,000”.

(b) REPEAL OF EFFECTIVE DATE.—Section 4106(f) of title 41, United States Code, is amended by striking paragraph (3).

SEC. 836. CONTRACT CLOSEOUT AUTHORITY.

(a) *AUTHORITY.*—The Secretary of Defense may close out a contract or group of contracts as described in subsection (b) through the issuance of one or more modifications to such contracts without completing a reconciliation audit or other corrective action. To accomplish closeout of such contracts—

(1) remaining contract balances may be offset with balances in other contract line items within a contract regardless of the year or type of appropriation obligated to fund each contract line item and regardless of whether the appropriation for such contract line item has closed; and

(2) remaining contract balances may be offset with balances on other contracts regardless of the year or type of appropriation obligated to fund each contract and regardless of whether the appropriation has closed.

(b) *COVERED CONTRACTS.*—This section covers any contract or group of contracts between the Department of Defense and a defense contractor, each one of which—

(1) was entered into prior to fiscal year 2000;

(2) has no further supplies or services deliverables due under the terms and conditions of the contract; and

(3) is determined by the Secretary of Defense to be not otherwise reconcilable because—

(A) the records have been destroyed or lost; or

(B) the records are available but the Secretary of Defense has determined that the time or effort required to determine the exact amount owed to the United States Government or amount owed to the contractor is disproportionate to the amount at issue.

(c) *NEGOTIATED SETTLEMENT AUTHORITY.*—Any contract or group of contracts covered by this section may be closed out through a negotiated settlement with the contractor.

(d) *WAIVER AUTHORITY.*—

(1) *IN GENERAL.*—The Secretary of Defense is authorized to waive any provision of acquisition law or regulation to carry out the authority under subsection (a).

(2) *NOTIFICATION REQUIREMENT.*—The Secretary of Defense shall notify the congressional defense committees not later than 10 days after exercising the authority under subsection (d). The notice shall include an identification of each provision of law or regulation waived.

(e) *ADJUSTMENT AND CLOSURE OF RECORDS.*—After closeout of any contract described in subsection (b) using the authority under this section, the payment or accounting offices concerned may adjust and close any open finance and accounting records relating to the contract.

(f) *NO LIABILITY.*—No liability shall attach to any accounting, certifying, or payment official, or any contracting officer, for any adjustments or closeout made pursuant to the authority under this section.

(g) *REGULATIONS.*—The Secretary of Defense shall prescribe regulations for the administration of the authority under this section.

Subtitle D—Provisions Relating to Major Defense Acquisition Programs

SEC. 846. REPEAL OF MAJOR AUTOMATED INFORMATION SYSTEMS PROVISIONS.

Effective September 30, 2017—

(1) chapter 144A of title 10, United States Code, is repealed;

(2) the tables of chapters at the beginning of subtitle A of such title, and at the beginning of part IV of subtitle A, are amended by striking the item relating to chapter 144A; and

(3) section 2334(a)(2) of title 10, United States Code, is amended by striking “or a major automated information system under chapter 144A of this title”.

SEC. 847. REVISIONS TO DEFINITION OF MAJOR DEFENSE ACQUISITION PROGRAM.

(a) *IN GENERAL.*—Section 2430 of title 10, United States Code, is amended in subsection (a)—

(1) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B), respectively;

(2) by striking “In this chapter” and inserting “(1) Except as provided under paragraph (2), in this chapter”; and

(3) by adding at the end the following new paragraph:

“(2) In this chapter, the term ‘major defense acquisition program’ does not include an acquisition program or project that is carried out using the rapid fielding or rapid prototyping acquisition pathway under section 804 of the National Defense Authorization Act for Fiscal Year 2016 (Public Law 114–92; 10 U.S.C. 2302 note).”.

(b) *ANNUAL REPORTING.*—The Secretary of Defense shall include in each comprehensive annual Selected Acquisition Report submitted under section 2432 of title 10, United States Code, a listing of all programs or projects being developed or procured under the exceptions to the definition of major defense acquisition program set forth in paragraph (2) of section 2430(a) of United States Code, as added by subsection (a)(1)(C) of this section.

Subtitle F—Provisions Relating to Commercial Items

SEC. 871. MARKET RESEARCH FOR DETERMINATION OF PRICE REASONABLENESS IN ACQUISITION OF COMMERCIAL ITEMS.

Section 2377 of title 10, United States Code, is amended—

(1) by redesignating subsection (d) as subsection (e), and in that subsection by striking “subsection (c)” and inserting “subsections (c) and (d)”; and

(2) by inserting after subsection (c) the following new subsection (d):

“(d) *MARKET RESEARCH FOR PRICE ANALYSIS.*—The Secretary of Defense shall ensure that procurement officials in the Department of Defense conduct or obtain market research to support the determination of the reasonableness of price for commercial items contained in any bid or offer submitted in response to an agency solicitation. To the extent necessary to support such market research, the procurement official for the solicitation—

“(1) in the case of items acquired under section 2379 of this title, shall use information submitted under subsection (d) of that section; and

“(2) in the case of other items, may require the offeror to submit relevant information.”.

SEC. 872. VALUE ANALYSIS FOR THE DETERMINATION OF PRICE REASONABLENESS.

Subsection 2379(d) of title 10, United States Code, is amended—

- (1) by redesignating paragraph (2) as paragraph (3); and
 (2) by inserting after paragraph (1) the following new paragraph (2):

“(2) An offeror may submit information or analysis relating to the value of a commercial item to aid in the determination of the reasonableness of the price of such item. A contracting officer may consider such information or analysis in addition to the information submitted pursuant to paragraphs (1)(A) and (1)(B).”.

SEC. 874. INAPPLICABILITY OF CERTAIN LAWS AND REGULATIONS TO THE ACQUISITION OF COMMERCIAL ITEMS AND COMMERCIALY AVAILABLE OFF-THE-SHELF ITEMS.

(a) AMENDMENT TO TITLE 10, UNITED STATES CODE.—Section 2375 of title 10, United States Code, is amended to read as follows:

“§ 2375. Relationship of commercial item provisions to other provisions of law

“(a) APPLICABILITY OF GOVERNMENT-WIDE STATUTES.—(1) No contract for the procurement of a commercial item entered into by the head of an agency shall be subject to any law properly listed in the Federal Acquisition Regulation pursuant to section 1906(b) of title 41.

“(2) No subcontract under a contract for the procurement of a commercial item entered into by the head of an agency shall be subject to any law properly listed in the Federal Acquisition Regulation pursuant to section 1906(c) of title 41.

“(3) No contract for the procurement of a commercially available off-the-shelf item entered into by the head of an agency shall be subject to any law properly listed in the Federal Acquisition Regulation pursuant to section 1907 of title 41.

“(b) APPLICABILITY OF DEFENSE-UNIQUE STATUTES TO CONTRACTS FOR COMMERCIAL ITEMS.—(1) The Defense Federal Acquisition Regulation Supplement shall include a list of defense-unique provisions of law and of contract clause requirements based on government-wide acquisition regulations, policies, or executive orders not expressly authorized in law that are inapplicable to contracts for the procurement of commercial items. A provision of law or contract clause requirement properly included on the list pursuant to paragraph (2) does not apply to purchases of commercial items by the Department of Defense. This section does not render a provision of law or contract clause requirement not included on the list inapplicable to contracts for the procurement of commercial items.

“(2) A provision of law or contract clause requirement described in subsection (e) that is enacted after January 1, 2015, shall be included on the list of inapplicable provisions of law and contract clause requirements required by paragraph (1) unless the Under Secretary of Defense for Acquisition, Technology, and Logistics makes a written determination that it would not be in the best interest of the Department of Defense to exempt contracts for the procurement of commercial items from the applicability of the provision or contract clause requirement.

“(c) APPLICABILITY OF DEFENSE-UNIQUE STATUTES TO SUBCONTRACTS FOR COMMERCIAL ITEMS.—(1) The Defense Federal Acquisition Regulation Supplement shall include a list of provisions of law and of contract clause requirements based on government-wide acquisition regulations, policies, or executive orders not expressly authorized in law that are inapplicable to subcontracts under a Department of Defense contract or subcontract for the procurement of commercial items. A provision of law or contract clause requirement properly included on the list pursuant to paragraph (2) does not apply to those subcontracts. This section does not render a provision of law or contract clause requirement not included on the list inapplicable to subcontracts under a contract for the procurement of commercial items.

“(2) A provision of law or contract clause requirement described in subsection (e) shall be included on the list of inapplicable provisions of law and contract clause requirements required by paragraph (1) unless the Under Secretary of Defense for Acquisition, Technology, and Logistics makes a written determination that it would not be in the best interest of the Department of Defense to exempt subcontracts under a contract for the procurement of commercial items from the applicability of the provision or contract clause requirement.

“(3) In this subsection, the term ‘subcontract’ includes a transfer of commercial items between divisions, subsidiaries, or affiliates of a contractor or subcontractor. The term does not include agreements entered into by a contractor for the supply of commodities that are intended for use in the performance of multiple contracts with the Department of Defense and other parties and are not identifiable to any particular contract.

“(4) This subsection does not authorize the waiver of the applicability of any provision of law or contract clause requirement with respect to any first-tier subcontract under a contract with a prime contractor reselling or distributing commercial items of another contractor without adding value.

“(d) APPLICABILITY OF DEFENSE-UNIQUE STATUTES TO CONTRACTS FOR COMMERCIALLY AVAILABLE, OFF-THE-SHELF ITEMS.—(1) The Defense Federal Acquisition Regulation Supplement shall include a list of provisions of law and of contract clause requirements based on government-wide acquisition regulations, policies, or executive orders not expressly authorized in law that are inapplicable to contracts for the procurement of commercially available off-the-shelf items. A provision of law or contract clause requirement properly included on the list pursuant to paragraph (2) does not apply to Department of Defense contracts for the procurement of commercially available off-the-shelf items. This section does not render a provision of law or contract clause requirement not included on the list inapplicable to contracts for the procurement of commercially available off-the-shelf items.

“(2) A provision of law or contract clause requirement described in subsection (e) shall be included on the list of inapplicable provisions of law and contract clause requirements required by paragraph (1) unless the Under Secretary of Defense for Acquisition, Technology, and Logistics makes a written determination that it would not be in the best interest of the Department of Defense to exempt contracts for the procurement of commercially available off-the-shelf items from the applicability of the provision or contract clause requirement.

“(e) COVERED PROVISION OF LAW OR CONTRACT CLAUSE REQUIREMENT.—A provision of law or contract clause requirement referred to in subsections (b)(2), (c)(2), and (d)(2) is a provision of law or contract clause requirement that the Under Secretary of Defense

for Acquisition, Technology, and Logistics determines sets forth policies, procedures, requirements, or restrictions for the procurement of property or services by the Federal Government, except for a provision of law or contract clause requirement that—

“(1) provides for criminal or civil penalties;

“(2) requires that certain articles be bought from American sources pursuant to section 2533a of this title, or requires that strategic materials critical to national security be bought from American sources pursuant to section 2533b of this title; or

“(3) specifically refers to this section and provides that, notwithstanding this section, it shall be applicable to contracts for the procurement of commercial items.”.

(b) **CHANGES TO DEFENSE FEDERAL ACQUISITION REGULATION SUPPLEMENT.**—

(1) **IN GENERAL.**—To the maximum extent practicable, the Under Secretary of Defense for Acquisition, Technology, and Logistics shall ensure that—

(A) the Defense Federal Acquisition Regulation Supplement does not require the inclusion of contract clauses in contracts for the procurement of commercial items or contracts for the procurement of commercially available off-the-shelf items, unless such clauses are—

(i) required to implement provisions of law or executive orders applicable to such contracts; or

(ii) determined to be consistent with standard commercial practice; and

(B) the flow-down of contract clauses to subcontracts under contracts for the procurement of commercial items or commercially available off-the-shelf items is prohibited unless such flow-down is required to implement provisions of law or executive orders applicable to such subcontracts.

(2) **SUBCONTRACTS.**—In this subsection, the term “subcontract” includes a transfer of commercial items between divisions, subsidiaries, or affiliates of a contractor or subcontractor. The term does not include agreements entered into by a contractor for the supply of commodities that are intended for use in the performance of multiple contracts with the Department of Defense and other parties and are not identifiable to any particular contract.

SEC. 875. USE OF COMMERCIAL OR NON-GOVERNMENT STANDARDS IN LIEU OF MILITARY SPECIFICATIONS AND STANDARDS.

(a) **IN GENERAL.**—The Secretary of Defense shall ensure that the Department of Defense uses commercial or non-Government specifications and standards in lieu of military specifications and standards, including for procuring new systems, major modifications, upgrades to current systems, non-developmental and commercial items, and programs in all acquisition categories, unless no practical alternative exists to meet user needs. If it is not practicable to use a commercial or non-Government standard, a Government-unique specification may be used.

(b) **LIMITED USE OF MILITARY SPECIFICATIONS.**—

(1) **IN GENERAL.**—Military specifications shall be used in procurements only to define an exact design solution when there is no acceptable commercial or non-Government standard or

when the use of a commercial or non-Government standard is not cost effective.

(2) **WAIVER.**—A waiver for the use of military specifications in accordance with paragraph (1) shall be approved by either the appropriate milestone decision authority, the appropriate service acquisition executive, or the Under Secretary of Defense for Acquisition, Technology, and Logistics.

(c) **REVISION TO DFARS.**—Not later than 180 days after the date of the enactment of this Act, the Under Secretary of Defense for Acquisition, Technology, and Logistics shall revise the Defense Federal Acquisition Regulation Supplement to encourage contractors to propose commercial or non-Government standards and industry-wide practices that meet the intent of the military specifications and standards.

(d) **DEVELOPMENT OF NON-GOVERNMENT STANDARDS.**—The Under Secretary for Acquisition, Technology, and Logistics shall form partnerships with appropriate industry associations to develop commercial or non-Government standards for replacement of military specifications and standards where practicable.

(e) **EDUCATION, TRAINING, AND GUIDANCE.**—The Under Secretary of Defense for Acquisition, Technology, and Logistics shall ensure that training, education, and guidance programs throughout the Department are revised to incorporate specifications and standards reform.

(f) **LICENSES.**—The Under Secretary of Defense for Acquisition, Technology, and Logistics shall negotiate licenses for standards to be used across the Department of Defense and shall maintain an inventory of such licenses that is accessible to other Department of Defense organizations.

SEC. 876. PREFERENCE FOR COMMERCIAL SERVICES.

Not later than 90 days after the date of the enactment of this Act, the Secretary of Defense shall revise the guidance issued pursuant to section 855 of the National Defense Authorization Act for Fiscal Year 2016 (Public Law 114–92; 10 U.S.C. 2377 note) to provide that—

(1) the head of an agency may not enter into a contract in excess of \$10,000,000 for facilities-related services, knowledge-based services (except engineering services), construction services, medical services, or transportation services that are not commercial services unless the service acquisition executive of the military department concerned, the head of the Defense Agency concerned, the commander of the combatant command concerned, or the Under Secretary of Defense for Acquisition, Technology, and Logistics (as applicable) determines in writing that no commercial services are suitable to meet the agency's needs as provided in section 2377(c)(2) of title 10, United States Code; and

(2) the head of an agency may not enter into a contract in an amount above the simplified acquisition threshold and below \$10,000,000 for facilities-related services, knowledge-based services (except engineering services), construction services, medical services, or transportation services that are not commercial services unless the contracting officer determines in writing that no commercial services are suitable to meet the agency's needs as provided in section 2377(c)(2) of such title.

SEC. 877. TREATMENT OF COMMINGLED ITEMS PURCHASED BY CONTRACTORS AS COMMERCIAL ITEMS.

(a) *IN GENERAL.*—Chapter 140 of title 10, United States Code, is amended by adding at the end the following new section:

“§ 2380B. Treatment of commingled items purchased by contractors as commercial items

“Notwithstanding 2376(1) of this title, items valued at less than \$10,000 that are purchased by a contractor for use in the performance of multiple contracts with the Department of Defense and other parties and are not identifiable to any particular contract shall be treated as a commercial item for purposes of this chapter.”

(b) *CLERICAL AMENDMENT.*—The table of sections for such chapter is amended by inserting after the item relating to section 2380A the following new item:

“2380B. Treatment of items purchased prior to release of prime contract requests for proposals as commercial items.”

SEC. 878. TREATMENT OF SERVICES PROVIDED BY NONTRADITIONAL CONTRACTORS AS COMMERCIAL ITEMS.

(a) *IN GENERAL.*—Section 2380A of title 10, United States Code, is amended—

(1) by striking “Notwithstanding” and inserting the following:

“(a) *GOODS AND SERVICES PROVIDED BY NONTRADITIONAL DEFENSE CONTRACTORS.*—Notwithstanding”;

(2) by adding at the end the following new subsection:

“(b) *SERVICES PROVIDED BY CERTAIN NONTRADITIONAL CONTRACTORS.*—Notwithstanding section 2376(1) of this title, services provided by a business unit that is a nontraditional defense contractor (as that term is defined in section 2302(9) of this title) shall be treated as commercial items for purposes of this chapter, to the extent that such services use the same pool of employees as used for commercial customers and are priced using methodology similar to methodology used for commercial pricing.”

(b) *CONFORMING AMENDMENTS.*—

(1) *SECTION HEADING.*—Section 2380A of title 10, United States Code, as amended by subsection (a), is further amended by striking the section heading and inserting the following:

“§ 2380a. Treatment of certain items as commercial items”.

(2) *TABLE OF SECTIONS.*—The table of sections at the beginning of chapter 140 of title 10, United States Code, is amended by striking the item relating to section 2380A and inserting the following new item:

“2380a. Treatment of certain items as commercial items.”

Subtitle G—Industrial Base Matters

SEC. 881. GREATER INTEGRATION OF THE NATIONAL TECHNOLOGY AND INDUSTRIAL BASE.

(a) *PLAN REQUIRED.*—Not later than January 1, 2018, the Secretary of Defense shall develop a plan to reduce the barriers to the seamless integration between the persons and organizations that comprise the national technology and industrial base (as defined in section 2500 of title 10, United States Code). The plan shall include at a minimum the following elements:

(1) A description of the various components of the national technology and industrial base, including government entities, universities, nonprofit research entities, nontraditional and commercial item contractors, and private contractors that conduct commercial and military research, produce commercial items that could be used by the Department of Defense, and produce items designated and controlled under section 38 of the Arms Export Control Act (also known as the “United States Munitions List”).

(2) Identification of the barriers to the seamless integration of the transfer of knowledge, goods, and services among the persons and organizations of the national technology and industrial base.

(3) Identification of current authorities that could contribute to further integration of the persons and organizations of the national technology and industrial base, and a plan to maximize the use of those authorities.

(4) Identification of changes in export control rules, procedures, and laws that would enhance the civil-military integration policy objectives set forth in section 2501(b) of title 10, United States Code, for the national technology and industrial base to increase the access of the Armed Forces to commercial products, services, and research and create incentives necessary for nontraditional and commercial item contractors, universities, and nonprofit research entities to modify commercial products or services to meet Department of Defense requirements.

(5) Recommendations for increasing integration of the national technology and industrial base that supplies defense articles to the Armed Forces and enhancing allied interoperability of forces through changes to the text or the implementation of—

(A) section 126.5 of title 22, Code of Federal Regulations (relating to exemptions that are applicable to Canada under the International Traffic in Arms Regulations);

(B) the Treaty Between the Government of the United States of America and the Government of Australia Concerning Defense Trade Cooperation, done at Sydney on September 5, 2007;

(C) the Treaty Between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland Concerning De-

fense Trade Cooperation, done at Washington and London on June 21 and 26, 2007; and

(D) any other agreements among the countries comprising the national technology and industrial base.

(b) AMENDMENT TO DEFINITION OF NATIONAL TECHNOLOGY AND INDUSTRIAL BASE.—Section 2500(1) of title 10, United States Code, is amended by inserting “; the United Kingdom of Great Britain and Northern Ireland, Australia,” after “United States”.

(c) REPORTING REQUIREMENT.—The Secretary of Defense shall report on the progress of implementing the plan in subsection (a) in the report required under section 2504 of title 10, United States Code.

Subtitle H—Other Matters

SEC. 892. SELECTION OF SERVICE PROVIDERS FOR AUDITING SERVICES AND AUDIT READINESS SERVICES.

The Department of Defense shall select service providers for auditing services and audit readiness services based on the best value to the Department, as determined by the resource sponsor for an auditing contract, rather than based on the lowest price technically acceptable service provider.

SEC. 893. AMENDMENTS TO CONTRACTOR BUSINESS SYSTEM REQUIREMENTS.

(a) BUSINESS SYSTEM REQUIREMENTS.—Section 893 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (Public Law 111–383; 10 U.S.C. 2302 note) is amended in subsection (b)(1), by striking “system requirements” and inserting “clear and specific business system requirements that are identified and made publicly available”.

(b) THIRD-PARTY INDEPENDENT AUDITOR REVIEWS.—Section 893 of such Act is further amended—

(1) by redesignating subsections (c), (d), (e), (f), and (g) as subsections (d), (e), (f), (g), and (h), respectively; and

(2) by inserting after subsection (b) the following new subsection (c):

“(c) REVIEW BY THIRD-PARTY INDEPENDENT AUDITORS.—The review process for contractor business systems pursuant to subsection (b)(2) shall—

“(1) if a registered public accounting firm attests to the internal control assessment of a contractor, pursuant to section 404(b) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7262(b)), allow the contractor, subject to paragraph (3), to submit certified documentation from such registered public accounting firm that the contractor business systems of the contractor meet the business system requirements referred to in subsection (b)(1) and to thereby eliminate the need for further review of the contractor business systems by the Secretary of Defense;

“(2) limit the review, subject to paragraph (3), of the contractor business systems of a contractor that is not a covered contractor to confirming that the contractor uses the same contractor business system for its Government and commercial work and that the outputs of the contractor business system based on statistical sampling are reasonable; and

“(3) allow a milestone decision authority to require a review of a contractor business system of a contractor that submits documentation pursuant to paragraph (1) or that is not a covered contractor after determining in writing that such a review is necessary to appropriately manage contractual risk.”

(c) **AMENDMENT TO DEFINITION OF COVERED CONTRACTOR.**—Section 893 of such Act is further amended in subsection (g), as so redesignated, by striking “means a contractor” and all that follows and inserting “means a contractor that has covered contracts with the United States Government accounting for greater than 1 percent of its total gross revenue, except that the term does not include any contractor that is exempt, under section 1502 of title 41, United States Code, or regulations implementing that section, from using full cost accounting standards established in that section.”

(d) **REPEAL OF OBSOLETE DEADLINE.**—Section 893 of such Act is further amended in subsection (a) by striking “Not later than 270 days after the date of the enactment of this Act, the” and inserting “The”.

SEC. 896. MODIFICATIONS TO PILOT PROGRAM FOR STREAMLINING AWARDS FOR INNOVATIVE TECHNOLOGY PROJECTS.

Section 873 of the National Defense Authorization Act for Fiscal Year 2016 (Public Law 114–92; 10 U.S.C. 2306a note) is amended—

(1) in subsection (a)(2), by inserting “or Small Business Technology Transfer Program” after “Small Business Innovation Research Program”;

(2) in subsection (b)—

(A) by inserting “subparagraphs (A), (B), and (C) of section 2313(a)(2) of title 10, United States Code, and” before “subsection (b) of section 2313”; and

(B) in paragraph (2), by inserting “; and if such performance audit is initiated within 18 months of the contract completion” before the period at the end;

(3) by redesignating subsections (c), (d), and (e) as subsections (f), (g), and (h), respectively; and

(4) by inserting after subsection (b) the following new subsections:

“(c) **TREATMENT AS COMPETITIVE PROCEDURES.**—Use of a technical, merit-based selection procedure or the Small Business Inno-

vation Research Program or Small Business Technology Transfer Program for the pilot program under this section shall be considered to be use of competitive procedures for purposes of chapter 137 of title 10, United States Code.

(d) **DISCRETION TO USE NON-CERTIFIED ACCOUNTING SYSTEMS.**—In executing programs under this pilot program, the Secretary of Defense shall establish procedures under which a small business or nontraditional contractor may engage an independent certified public accountant for the review and certification of its accounting system for the purposes of any audits required by regulation, unless the head of the agency determines that this is not appropriate based on past performance of the specific small business or nontraditional defense contractor, or based on analysis of other information specific to the award.

(e) **GUIDANCE AND TRAINING.**—The Secretary of Defense shall ensure that acquisition and auditing officials are provided guidance and training on the flexible use and tailoring of authorities under the pilot program to maximize efficiency and effectiveness.”

SEC. 899A. ENHANCED AUTHORITY TO ACQUIRE PRODUCTS AND SERVICES PRODUCED IN AFRICA IN SUPPORT OF CERTAIN ACTIVITIES.

(a) *IN GENERAL.*—Except as provided in subsection (c), in the case of a product or service to be acquired in support of covered activities in a covered African country for which the Secretary of Defense makes a determination described in subsection (b), the Secretary may conduct a procurement in which—

(1) competition is limited to products or services from the host nation;

(2) a preference is provided for products or services from the host nation; or

(3) a preference is provided for products or services from a covered African country, other than the host nation.

(b) *DETERMINATION.*—

(1) *IN GENERAL.*—A determination described in this subsection is a determination by the Secretary of any of the following:

(A) That the product or service concerned is to be used only in support of covered activities.

(B) That it is in the national security interests of the United States to limit competition or provide a preference as described in subsection (a) because such limitation or preference is necessary—

(i) to reduce overall United States transportation costs and risks in shipping products in support of operations, exercises, theater security cooperation activities, and other missions in the African region;

(ii) to reduce delivery times in support of covered activities; or

(iii) to promote regional security and stability in Africa.

(C) That the product or service is of equivalent quality to a product or service that would have otherwise been acquired without such limitation or preference.

(2) *REQUIREMENT FOR EFFECTIVENESS OF ANY PARTICULAR DETERMINATION.*—A determination under paragraph (1) shall not be effective for purposes of a limitation or preference under subsection (a) unless the Secretary also determines that—

(A) the limitation or preference will not adversely affect—

(i) United States military operations or stability operations in the African region; or

(ii) the United States industrial base; and

(B) in the case of air transportation, an air carrier holding a certificate under section 41102 of title 49, United States Code, is not reasonably available to provide the air transportation.

(c) *INAPPLICABILITY OF AUTHORITY TO PROCUREMENT OF ITEMS ON ABILITYONE PROCUREMENT CATALOG.*—The authority under subsection (a) may not be used for the procurement of any good that is contained in the procurement list described in section 8503(a) of title 41, United States Code, if such good can be produced and delivered by a qualified non profit agency for the blind or a nonprofit agency for other severely disabled in a timely fashion to support mission requirements.

(d) *REPORT ON USE OF AUTHORITY.*—Not later than December 31, 2017, the Secretary shall submit to the congressional defense committees a report on the use of the authority in subsection (a). The report shall include, but not be limited to, the following:

(1) The number of determinations made by the Secretary pursuant to subsection (b).

(2) A list of the countries providing products or services as a result of determinations made pursuant to subsection (b).

(3) A description of the products and services acquired using the authority.

(4) The extent to which the use of the authority has met the one or more of the objectives specified in clause (i), (ii), or (iii) of subsection (b)(1)(B).

(5) Such recommendations for improvements to the authority as the Secretary considers appropriate.

(6) Such other matters as the Secretary considers appropriate.

(e) *DEFINITIONS.*—In this section:

(1) *COVERED ACTIVITIES.*—The term “covered activities” means Department of Defense activities in the African region or a regional neighbor.

(2) *COVERED AFRICAN COUNTRY.*—The term “covered African country” means a country in Africa that has signed a long-term agreement with the United States related to the basing or operational needs of the United States Armed Forces.

(3) *HOST NATION.*—The term “host nation” means a nation that allows the Armed Forces and supplies of the United States to be located on, to operate in, or to be transported through its territory.

(4) *PRODUCT OR SERVICE OF A COVERED AFRICAN COUNTRY.*—The term “product or service of a covered African country” means the following:

(A) A product from a covered African country that is wholly grown, mined, manufactured, or produced in the covered African country.

(B) A service from a covered African country that is performed by a person or entity that—

(i) is properly licensed or registered by appropriate authorities of the covered African country; and

(ii) as determined by the Chief of Mission concerned—

(I) is operating primarily in the covered African country; or

(II) is making a significant contribution to the economy of the covered African country through payment of taxes or use of products, materials, or labor that are primarily grown, mined, manufactured, produced, or sourced from the covered African country.

(f) *CONFORMING AMENDMENT.*—Section 1263 of the National Defense Authorization Act for Fiscal Year 2015 (Public Law 113–291; 128 Stat. 3581) is repealed.

TITLE XII—MATTERS RELATING TO FOREIGN NATIONS

Subtitle B—Matters Relating to Afghanistan and Pakistan

SEC. 1212. EXTENSION OF AUTHORITY TO ACQUIRE PRODUCTS AND SERVICES PRODUCED IN COUNTRIES ALONG A MAJOR ROUTE OF SUPPLY TO AFGHANISTAN.

Section 801(f) of the National Defense Authorization Act for Fiscal Year 2010 (Public Law 111–84; 123 Stat. 2399), as most recently amended by section 1214 of the National Defense Authorization Act for Fiscal Year 2016 (Public Law 114–92; 129 Stat. 1045), is further amended by striking “December 31, 2016” and inserting “December 31, 2018”.

Subtitle H—Other Matters

SEC. 1296. MAINTENANCE OF PROHIBITION ON PROCUREMENT BY DEPARTMENT OF DEFENSE OF PEOPLE’S REPUBLIC OF CHINA-ORIGIN ITEMS THAT MEET THE DEFINITION OF GOODS AND SERVICES CONTROLLED AS MUNITIONS ITEMS WHEN MOVED TO THE “600 SERIES” OF THE COMMERCE CONTROL LIST.

(a) *IN GENERAL.*—Section 1211 of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109–163; 10 U.S.C. 2302 note) is amended—

(1) in subsection (b), by inserting “or in the 600 series of the control list of the Export Administration Regulations” after “in Arms Regulations”; and

(2) in subsection (e), by adding at the end the following new paragraph:

“(3) The term ‘600 series of the control list of the Export Administration Regulations’ means the 600 series of the Commerce Control List contained in Supplement No. 1 to part 774 of subtitle B of title 15 of the Code of Federal Regulations.”.

(b) *TECHNICAL CORRECTIONS TO ITAR REFERENCES.*—Such section is further amended by striking “Trafficking” both places it appears and inserting “Traffic”.

TITLE XVI—STRATEGIC PROGRAMS, CYBER, AND INTELLIGENCE MATTERS

Subtitle C—Cyberspace-Related Matters

SEC. 1641. SPECIAL EMERGENCY PROCUREMENT AUTHORITY TO FACILITATE THE DEFENSE AGAINST OR RECOVERY FROM A CYBER ATTACK.

Section 1903(a)(2) of title 41, United States Code, is amended by inserting “cyber,” before “nuclear.”.

**TITLE XVIII—MATTERS RELATING TO SMALL BUSINESS
PROCUREMENT**

**Subtitle A—Improving Transparency and Clarity for Small
Businesses**

**SEC. 1801. PLAIN LANGUAGE REWRITE OF REQUIREMENTS FOR SMALL
BUSINESS PROCUREMENTS.**

Section 15(a) of the Small Business Act (15 U.S.C. 644(a)) is amended to read as follows:

“(a) **SMALL BUSINESS PROCUREMENTS.**—

“(1) **IN GENERAL.**—For purposes of this Act, small business concerns shall receive any award or contract if such award or contract is, in the determination of the Administrator and the contracting agency, in the interest of—

“(A) maintaining or mobilizing the full productive capacity of the United States;

“(B) war or national defense programs; or

“(C) assuring that a fair proportion of the total purchase and contracts for goods and services of the Government in each industry category (as defined under paragraph (2)) are awarded to small business concerns.

“(2) **INDUSTRY CATEGORY DEFINED.**—

“(A) **IN GENERAL.**—In this subsection, the term ‘industry category’ means a discrete group of similar goods and services, as determined by the Administrator in accordance with the North American Industry Classification System codes used to establish small business size standards, except that the Administrator shall limit an industry category to a greater extent than provided under the North American Industry Classification System codes if the Administrator receives evidence indicating that further segmentation of the industry category is warranted—

“(i) due to special capital equipment needs;

“(ii) due to special labor requirements;

“(iii) due to special geographic requirements, except as provided in subparagraph (B);

“(iv) due to unique Federal buying patterns or requirements; or

“(v) to recognize a new industry.

“(B) **EXCEPTION FOR GEOGRAPHIC REQUIREMENTS.**—The Administrator may not further segment an industry category based on geographic requirements unless—

“(i) the Government typically designates the geographic area where work for contracts for goods or services is to be performed;

“(ii) Government purchases comprise the major portion of the entire domestic market for such goods or services; and

“(iii) it is unreasonable to expect competition from business concerns located outside of the general geographic area due to the fixed location of facilities, high mobilization costs, or similar economic factors.

“(3) DETERMINATIONS WITH RESPECT TO AWARDS OR CONTRACTS.—Determinations made pursuant to paragraph (1) may be made for individual awards or contracts, any part of an award or contract or task order, or for classes of awards or contracts or task orders.

“(4) INCREASING PRIME CONTRACTING OPPORTUNITIES FOR SMALL BUSINESS CONCERNS.—

“(A) DESCRIPTION OF COVERED PROPOSED PROCUREMENTS.—The requirements of this paragraph shall apply to a proposed procurement that includes in its statement of work goods or services currently being supplied or performed by a small business concern and, as determined by the Administrator—

“(i) is in a quantity or of an estimated dollar value which makes the participation of a small business concern as a prime contractor unlikely;

“(ii) in the case of a proposed procurement for construction, seeks to bundle or consolidate discrete construction projects; or

“(iii) is a solicitation that involves an unnecessary or unjustified bundling of contract requirements.

“(B) NOTICE TO PROCUREMENT CENTER REPRESENTATIVES.—With respect to proposed procurements described in subparagraph (A), at least 30 days before issuing a solicitation and concurrent with other processing steps required before issuing the solicitation, the contracting agency shall provide a copy of the proposed procurement to the procurement center representative of the contracting agency (as described in subsection (l)) along with a statement explaining—

“(i) why the proposed procurement cannot be divided into reasonably small lots (not less than economic production runs) to permit offers on quantities less than the total requirement;

“(ii) why delivery schedules cannot be established on a realistic basis that will encourage the participation of small business concerns in a manner consistent with the actual requirements of the Government;

“(iii) why the proposed procurement cannot be offered to increase the likelihood of the participation of small business concerns;

“(iv) in the case of a proposed procurement for construction, why the proposed procurement cannot be offered as separate discrete projects; or

“(v) why the contracting agency has determined that the bundling of contract requirements is necessary and justified.

“(C) ALTERNATIVES TO INCREASE PRIME CONTRACTING OPPORTUNITIES FOR SMALL BUSINESS CONCERNS.—If the procurement center representative believes that the proposed procurement will make the participation of small business concerns as prime contractors unlikely, the procurement center representative, within 15 days after receiving the statement described in subparagraph (B), shall recommend to the contracting agency alternative procurement methods for increasing prime contracting opportunities for small business concerns.

“(D) FAILURE TO AGREE ON AN ALTERNATIVE PROCUREMENT METHOD.—If the procurement center representative and the contracting agency fail to agree on an alternative procurement method, the Administrator shall submit the matter to the head of the appropriate department or agency for a determination.

“(5) CONTRACTS FOR SALE OF GOVERNMENT PROPERTY.—With respect to a contract for the sale of Government property, small business concerns shall receive any such contract if, in the determination of the Administrator and the disposal agency, the award of such contract is in the interest of assuring that a fair proportion of the total sales of Government property be made to small business concerns.

“(6) SALE OF ELECTRICAL POWER OR OTHER PROPERTY.—Nothing in this subsection shall be construed to change any preferences or priorities established by law with respect to the sale of electrical power or other property by the Federal Government.

“(7) COSTS EXCEEDING FAIR MARKET PRICE.—A contract may not be awarded under this subsection if the cost of the contract to the awarding agency exceeds a fair market price.”.

Subtitle B—Clarifying the Roles of Small Business Advocates

SEC. 1811. SCOPE OF REVIEW BY PROCUREMENT CENTER REPRESENTATIVES.

(a) Section 15(l) of the Small Business Act (15 U.S.C. 644(l)) is amended by adding at the end the following new paragraph:

“(9) SCOPE OF REVIEW.—The Administrator—

“(A) may not limit the scope of review by the procurement center representative for any solicitation of a contract or task order without regard to whether the contract or task order or part of the contract or task order is set aside for small business concerns, whether 1 or more contracts or task order awards are reserved for small business concerns under a multiple award contract, or whether or not the solicitation would result in a bundled or consolidated contract (as defined in subsection (s)) or a bundled or consolidated task order; and

“(B) shall, unless the contracting agency requests a review, limit the scope of review by the procurement center representative for any solicitation of a contract or task order if such solicitation is awarded by or for the Department of Defense and—

“(i) is conducted pursuant to section 22 of the Arms Export Control Act (22 U.S.C. 2762);

“(ii) is a humanitarian operation as defined in section 401(e) of title 10, United States Code;

“(iii) is for a contingency operation, as defined in section 101(a)(13) of title 10, United States Code;

“(iv) is to be awarded pursuant to an agreement with the government of a foreign country in which Armed Forces of the United States are deployed; or

“(v) both the place of award and the place of performance are outside of the United States and its territories.”.

(b) *Section 15(g)(2)(B) of the Small Business Act (15 U.S.C. 644(g)(2)(B) is amended by inserting after the period at the end the following new sentence: “Contracts excluded from review by procurement center representatives pursuant to subsection (l)(9)(B) shall not be considered when establishing these goals.”.*

SEC. 1812. DUTIES OF THE OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION.

Section 15(k) of the Small Business Act (15 U.S.C. 644(k)) is amended—

(1) by striking “section 8, 15 or 44” and inserting “section 8, 15, 31, 36, or 44”;

(2) by striking “sections 8 and 15” each place such term appears and inserting “sections 8, 15, 31, 36, and 44”;

(3) in paragraph (10), by striking “section 8(a)” and inserting “section 8, 15, 31, or 36”;

(4) in paragraph (17)(C), by striking the period at the end and inserting a semicolon;

(5) by inserting after paragraph (17) the following new paragraph:

“(18) shall review summary data provided by purchase card issuers of purchases made by the agency greater than the micro-purchase threshold (as defined under section 1902 of title 41, United States Code) and less than the simplified acquisition threshold to ensure that the purchases have been made in compliance with the provisions of this Act and have been properly recorded in the Federal Procurement Data System, if the method of payment is a purchase card issued by the Department of Defense pursuant to section 2784 of title 10, United States Code, or by the head of an executive agency pursuant to section 1909 of title 41, United States Code;”; and

(6) in paragraph (16)—

(A) in subparagraph (B), by striking “and” at the end;

and

(B) by adding at the end the following new subparagraph:

“(D) any failure of the agency to comply with section 8, 15, 31, or 36;”.

SEC. 1813. IMPROVING CONTRACTOR COMPLIANCE.

(a) **REQUIREMENTS FOR THE OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION.**—Section 15(k) of the Small Business Act (15 U.S.C. 644(k)(8)), as amended by this Act, is further amended by inserting after paragraph (18) (as inserted by section 1812 of this Act) the following new paragraph:

“(19) shall provide assistance to a small business concern awarded a contract or subcontract under this Act or under title 10 or title 41, United States Code, in finding resources for education and training on compliance with contracting regulations (including the Federal Acquisition Regulation) after award of such a contract or subcontract; and”.

(b) **REQUIREMENTS UNDER THE MENTOR-PROTEGE PROGRAM OF THE DEPARTMENT OF DEFENSE.**—Section 831(e)(1) of the National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510; 104 Stat. 1607; 10 U.S.C. 2302 note) is amended—

- (1) in subparagraph (B), by striking “and” at the end;
- (2) in subparagraph (C), by striking the period at the end and inserting “; and”; and
- (3) by adding at the end the following new subparagraph:

“(D) the assistance the mentor firm will provide to the protege firm in understanding contract regulations of the Federal Government and the Department of Defense (including the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement) after award of a subcontract under this section, if applicable.”.

(c) **RESOURCES FOR SMALL BUSINESS CONCERNS.**—Section 15 of the Small Business Act (15 U.S.C. 644) is amended by adding at the end the following new subsection:

“(u) **POST-AWARD COMPLIANCE RESOURCES.**—The Administrator shall provide to small business development centers and entities participating in the Procurement Technical Assistance Cooperative Agreement Program under chapter 142 of title 10, United States Code, and shall make available on the website of the Administration, a list of resources for small business concerns seeking education and assistance on compliance with contracting regulations (including the Federal Acquisition Regulation) after award of a contract or subcontract.”.

(d) **REQUIREMENTS FOR PROCUREMENT CENTER REPRESENTATIVES.**—Section 15(l)(2) of the Small Business Act (15 U.S.C. 644(l)(2)) is amended—

- (1) by redesignating subparagraph (I) as subparagraph (J);
- (2) in subparagraph (H), by striking “and” at the end; and
- (3) by inserting after subparagraph (H) the following new subparagraph:

“(I) assist small business concerns with finding resources for education and training on compliance with contracting regulations (including the Federal Acquisition Regulation) after award of a contract or subcontract; and”.

(e) **REQUIREMENTS UNDER THE MENTOR-PROTEGE PROGRAM OF THE SMALL BUSINESS ADMINISTRATION.**—Section 45(b)(3) of the Small Business Act (15 U.S.C. 657r(b)(3)) is amended by adding at the end the following new subparagraph:

“(K) The types of assistance provided by a mentor to assist with compliance with the requirements of contracting

with the Federal Government after award of a contract or subcontract under this section.”.

Subtitle C—Strengthening Opportunities for Competition in Subcontracting

SEC. 1821. GOOD FAITH IN SUBCONTRACTING.

(a) *TRANSPARENCY IN SUBCONTRACTING GOALS.*—Section 8(d)(9) of the Small Business Act (15 U.S.C. 637(d)(9)) is amended—

- (1) by striking “(9) The failure” and inserting the following:
 - “(9) *MATERIAL BREACH.*—The failure”;
 - (2) in subparagraph (A), by striking “or” at the end;
 - (3) in subparagraph (B), by inserting “or” at the end;
 - (4) by inserting after subparagraph (B) the following new subparagraph:
 - “(C) assurances provided under paragraph (6)(E),”;
 - and

- (5) by moving the margins of subparagraphs (A) and (B), and the matter after subparagraph (C) (as inserted by paragraph (4)), 2 ems to the right.

(b) *REVIEW OF SUBCONTRACTING PLANS.*—Section 15(k) of the Small Business Act (15 U.S.C. 644(k)) as amended by this Act, is further amended by inserting after paragraph (19) (as inserted by section 1813 of this Act) the following new paragraph:

“(20) shall review all subcontracting plans required by paragraph (4) or (5) of section 8(d) to ensure that the plan provides maximum practicable opportunity for small business concerns to participate in the performance of the contract to which the plan applies.”.

(c) *GOOD FAITH COMPLIANCE.*—Not later than 270 days after the date of enactment of this title, the Administrator of the Small Business Administration shall provide examples of activities that would be considered a failure to make a good faith effort to comply with the requirements imposed on an entity (other than a small business concern as defined under section 3 of the Small Business Act (15 U.S.C. 632)) that is awarded a prime contract containing the clauses required under paragraph (4) or (5) of section 8(d) of the Small Business Act (15 U.S.C. 637(d)).

SEC. 1823. AMENDMENTS TO THE MENTOR-PROTEGE PROGRAM OF THE DEPARTMENT OF DEFENSE.

Section 831 of the National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510; 104 Stat. 1607; 10 U.S.C. 2302 note) is amended—

(1) by amending subsection (d) to read as follows:

“(d) **MENTOR FIRM ELIGIBILITY.**—

“(1) Subject to subsection (c)(1), a mentor firm may enter into an agreement with one or more protege firms under subsection (e) and provide assistance under the program pursuant to that agreement if the mentor firm—

“(A) is eligible for award of Federal contracts; and

“(B) demonstrates that it—

“(i) is qualified to provide assistance that will contribute to the purpose of the program;

“(ii) is of good financial health and character and does not appear on a Federal list of debarred or suspended contractors; and

“(iii) can impart value to a protege firm because of experience gained as a Department of Defense contractor or through knowledge of general business operations and government contracting, as demonstrated by evidence that—

“(I) during the fiscal year preceding the fiscal year in which the mentor firm enters into the agreement, the total amount of the Department of Defense contracts awarded such mentor firm and the subcontracts awarded such mentor firm under Department of Defense contracts was equal to or greater than \$100,000,000; or

“(II) the mentor firm demonstrates the capability to assist in the development of protege firms, and is approved by the Secretary of Defense pursuant to criteria specified in the regulations prescribed pursuant to subsection (k).

“(2) A mentor firm may not enter into an agreement with a protege firm if the Administrator of the Small Business Administration has made a determination finding affiliation between the mentor firm and the protege firm.

“(3) If the Administrator of the Small Business Administration has not made such a determination and if the Secretary has reason to believe (based on the regulations promulgated by the Administrator regarding affiliation) that the mentor firm is affiliated with the protege firm, the Secretary shall request a determination regarding affiliation from the Administrator of the Small Business Administration.”;

(2) in subsection (n), by amending paragraph (9) to read as follows:

“(9) The term ‘affiliation’, with respect to a relationship between a mentor firm and a protege firm, means a relationship described under section 121.103 of title 13, Code of Federal Regulations (or any successor regulation).”; and

(3) in subsection (f)(6)—

(A) in subparagraph (B), by striking “or” at the end;

(B) in subparagraph (C), by striking the period at the end and inserting “; or”; and

(C) by adding at the end the following new subparagraph:

“(D) women’s business centers described in section 29 of the Small Business Act (15 U.S.C. 656).”.

Subtitle D—Miscellaneous Provisions

SEC. 1832. UNIFORMITY IN SERVICE-DISABLED VETERAN DEFINITIONS.

(a) **SMALL BUSINESS DEFINITION OF SMALL BUSINESS CONCERN CONSOLIDATED.**—Section 3(q) of the Small Business Act (15 U.S.C. 632(q)) is amended—

(1) by amending paragraph (2) to read as follows:

“(2) **SMALL BUSINESS CONCERN OWNED AND CONTROLLED BY SERVICE-DISABLED VETERANS.**—The term ‘small business concern owned and controlled by service-disabled veterans’ means any of the following:

“(A) A small business concern—

“(i) not less than 51 percent of which is owned by one or more service-disabled veterans or, in the case of any publicly owned business, not less than 51 percent of the stock (not including any stock owned by an ESOP) of which is owned by one or more service-disabled veterans; and

“(ii) the management and daily business operations of which are controlled by one or more service-disabled veterans or, in the case of a veteran with permanent and severe disability, the spouse or permanent caregiver of such veteran.

“(B) A small business concern—

“(i) not less than 51 percent of which is owned by one or more service-disabled veterans with a disability that is rated by the Secretary of Veterans Affairs as a permanent and total disability who are unable to manage the daily business operations of such concern; or

“(ii) in the case of a publicly owned business, not less than 51 percent of the stock (not including any stock owned by an ESOP) of which is owned by one or more such veterans.

“(C)(i) During the time period described in clause (ii), a small business concern that was a small business concern described in subparagraph (A) or (B) immediately prior to the death of a service-disabled veteran who was the owner of the concern, the death of whom causes the concern to be less than 51 percent owned by one or more service-disabled veterans, if—

“(I) the surviving spouse of the deceased veteran acquires such veteran’s ownership interest in such concern;

“(II) such veteran had a service-connected disability (as defined in section 101(16) of title 38, United States Code) rated as 100 percent disabling under the laws administered by the Secretary of Veterans Affairs or such veteran died as a result of a service-connected disability; and

“(III) immediately prior to the death of such veteran, and during the period described in clause (ii), the small business concern is included in the database described in section 8127(f) of title 38, United States Code.

“(ii) The time period described in this clause is the time period beginning on the date of the veteran’s death and ending on the earlier of—

“(I) the date on which the surviving spouse remarries;

“(II) the date on which the surviving spouse relin-

quishes an ownership interest in the small business concern; or

“(III) the date that is 10 years after the date of the death of the veteran.”; and

(2) by adding at the end the following new paragraphs:

“(6) ESOP.—The term ‘ESOP’ has the meaning given the term ‘employee stock ownership plan’ in section 4975(e)(7) of the Internal Revenue Code of 1986 (26 U.S.C. 4975(e)(7)).

“(7) SURVIVING SPOUSE.—The term ‘surviving spouse’ has the meaning given such term in section 101(3) of title 38, United States Code.”.

(b) VETERANS AFFAIRS DEFINITION OF SMALL BUSINESS CONCERN CONSOLIDATED.—

(1) IN GENERAL.—Section 8127 of title 38, United States Code, is amended—

(A) by striking subsection (h) and redesignating subsections (i) through (l) as subsections (h) through (k), respectively; and

(B) in subsection (k), as so redesignated—

(i) by amending paragraph (2) to read as follows:

“(2) The term ‘small business concern owned and controlled by veterans’ has the meaning given that term under section 3(q)(3) of the Small Business Act (15 U.S.C. 632(q)(3)).”; and

(ii) by adding at the end the following new paragraph:

“(3) The term ‘small business concern owned and controlled by veterans with service-connected disabilities’ has the meaning given the term ‘small business concern owned and controlled by service-disabled veterans’ under section 3(q)(2) of the Small Business Act (15 U.S.C. 632(q)(2)).”.

(2) CONFORMING AMENDMENTS.—Such section is further amended—

(A) in subsection (b), by inserting “or a small business concern owned and controlled by veterans with service-connected disabilities” after “a small business concern owned and controlled by veterans”;

(B) in subsection (c), by inserting “or a small business concern owned and controlled by veterans with service-connected disabilities” after “a small business concern owned and controlled by veterans”;

(C) in subsection (d) by inserting “or small business concerns owned and controlled by veterans with service-connected disabilities” after “small business concerns owned and controlled by veterans” both places it appears; and

(D) in subsection (f)(1), by inserting “, small business concerns owned and controlled by veterans with service-connected disabilities,” after “small business concerns owned and controlled by veterans”.

(c) TECHNICAL CORRECTION.—Section 8(d)(3) of the Small Business Act (15 U.S.C. 637(d)(3)), is amended by adding at the end the following new subparagraph:

“(H) In this contract, the term ‘small business concern owned and controlled by service-disabled veterans’ has the meaning given that term in section 3(q).”.

(d) REGULATIONS RELATING TO DATABASE OF THE SECRETARY OF VETERANS AFFAIRS.—

(1) *REQUIREMENT TO USE CERTAIN SMALL BUSINESS ADMINISTRATION REGULATIONS.*—Section 8127(f)(4) of title 38, United States Code, is amended by striking “verified” and inserting “verified, using regulations issued by the Administrator of the Small Business Administration with respect to the status of the concern as a small business concern and the ownership and control of such concern.”.

(2) *PROHIBITION ON SECRETARY OF VETERANS AFFAIRS ISSUING CERTAIN REGULATIONS.*—Section 8127(f) of title 38, United States Code, is amended by adding at the end the following new paragraph:

“(7) The Secretary may not issue regulations related to the status of a concern as a small business concern and the ownership and control of such small business concern.”.

(e) *DELAYED EFFECTIVE DATE.*—The amendments made by subsections (a), (b), (c), and (d) shall take effect on the date on which the Administrator of the Small Business Administration and the Secretary of Veterans Affairs jointly issue regulations implementing such sections.

(f) *APPEALS OF INCLUSION IN DATABASE.*—

(1) *IN GENERAL.*—Section 8127(f) of title 38, United States Code, as amended by this section, is further amended by adding at the end the following new paragraph:

“(8)(A) If a small business concern is not included in the database because the Secretary does not verify the status of the concern as a small business concern or the ownership or control of the concern, the concern may appeal the denial of verification to the Office of Hearings and Appeals of the Small Business Administration (as established under section 5(i) of the Small Business Act). The decision of the Office of Hearings and Appeals shall be considered a final agency action.

“(B)(i) If an interested party challenges the inclusion in the database of a small business concern owned and controlled by veterans or a small business concern owned and controlled by veterans with service-connected disabilities based on the status of the concern as a small business concern or the ownership or control of the concern, the challenge shall be heard by the Office of Hearings and Appeals of the Small Business Administration as described in subparagraph (A). The decision of the Office of Hearings and Appeals shall be considered final agency action.

“(ii) In this subparagraph, the term ‘interested party’ means—

“(I) the Secretary; or

“(II) in the case of a small business concern that is awarded a contract, the contracting officer of the Department or another small business concern that submitted an offer for the contract that was awarded to the small business concern that is the subject of a challenge made under clause (i).

“(C) For each fiscal year, the Secretary shall reimburse the Administrator of the Small Business Administration in an amount necessary to cover any cost incurred by the Office of Hearings and Appeals of the Small Business Administration for actions taken by the Office under this paragraph. The Administrator is authorized to accept such reimbursement. The amount of any such reimbursement shall be determined jointly by the Secretary and the Administrator and shall be provided from fees collected by the Secretary under multiple-award schedule contracts. Any disagreement about the amount shall be resolved by the Director of the Office of Management and Budget.”.

(2) *EFFECTIVE DATE.*—Paragraph (8) of subsection (f) of title 38, United States Code, as added by paragraph (1), shall apply with respect to a verification decision made by the Secretary of Veterans Affairs on or after the date of the enactment of this Act.