



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-3000

OCT 24 2014

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

SUBJECT: Use of Blended Rates to Implement Multiple Compensation Caps

The Federal Acquisition Regulation Council issued an interim rule effective on June 24, 2014, revising FAR 31.205-6(p) to establish new allowable cost limitations, initially \$487,000, for annual compensation costs incurred on contracts awarded on or after June 24, 2014. The interim rule requirements were established in statute by the Bipartisan Budget Act of 2013. The interim rule is effective for new contracts subject to FAR 31.2 which are awarded on or after June 24, 2014. As required by FAR 52.216-7, contracts subject to FAR 31.2 and awarded prior to this date continue to follow the compensation cap at FAR 31.205-6(p) in effect at the time of contract award.

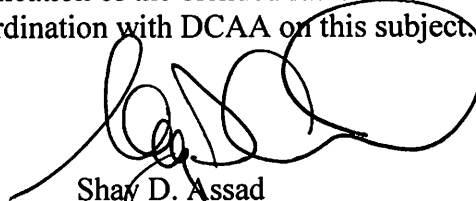
Many contractors will have contracts subject to both the current and earlier compensation limit provisions in FAR 31.205-6(p), causing the potential for undue complexity and related costs to implement multiple rates to accommodate these revisions. After careful review and consideration of the law and regulations, contractors' use of a "blended rate" approach is deemed as a practical and cost efficient solution to implement these requirements.

Blended rates will be calculated by each individual contractor as a weighted average composite cap amount specific to their contract volume prior to June 24, 2014, and on or after June 24, 2014. Contractors may elect, but are not required, to use the blended rate approach. Depending upon their circumstances, contractors may elect another compliant method (e.g., using the new \$487,000 cap for all contracts regardless of award date).

If a contractor proposes to use the blended rate method to cost and propose, the contractor will initially calculate and use a blended rate for interim billing. Subsequently, for the purpose of establishing final overhead rates, contractors will calculate blended rates reflecting actual proportion of contract costs for the current year for contracts prior to and after June 24, 2014. The contractors' final overhead submission for the completed fiscal year must include auditable

substantiation of the calculation of the actual blended rates. An audit will ensure that only the total allowable compensation is billed to the Government for the fiscal year based on the different authorized caps. The objective is to simplify compliance while continuing to protect the interests of the Government.

Contract administration office contracting officers and contractors will execute an advance agreement in accordance with FAR 31.109 with each contractor that chooses to employ the blended rate method. The advance agreement will outline the agreed-to process, auditable data submission and expiration for the application of the blended rates. Additionally, DCMA will issue implementation guidance in coordination with DCAA on this subject.



Shay D. Assad  
Director, Defense Pricing