



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

IMMEDIATE POLICY CHANGE

Pricing and Negotiation

Contracts Directorate
OPR: DCMA-AQ

DCMA-INST 120 (IPC-1)
March 22, 2016

1. POLICY. This Immediate Policy Change (IPC) implements changes to DCMA-INST 120, "Pricing and Negotiation," April 1, 2014. (Reference (a))

2. PURPOSE. The purpose of this IPC is to fully implement the recommendations provided by the DoD Office of Inspector General in reports DODIG-2013-015, "Actions to Align Defense Contract Management Agency and Defense Contract Audit Agency," November 13, 2012 and DODIG-2016-005, "Follow up on the Actions to Improve the Defense Contract Management Agency's Cost Analysis Function," October 29, 2015. The new guidance also corrects the process for requesting field pricing support and assist audits for Outside the Continental United States (OCONUS) contractors, will clarify CMO to CMO pricing and negotiation support procedures, and incorporate commercial item determination support procedures.

3. APPLICABILITY. This IPC applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence.

4. NEW GUIDANCE.

a. Change paragraph 5 on page 1 to read:

5. ~~PLAS CODE. DEFENSE AGENCIES INITIATIVE (DAI) SYSTEM CODES.~~

a. ~~Process: 041 Pricing and Negotiation~~ **Process Codes: D1300, Proposal Assessment Support; D3000, Assess Risk (Contract/Contractor/ Program/Personnel); D3100, General Customer/Contractor Interface; D3200, Rate Negotiations; D5102, Execute Surv (Over and Above Requests); D6100, Analyze Results (Pricing Cases); and D6110, Analyze Results (Should Cost Reviews).**

b. ~~National Programs: ACAT/Other Customers; Other National; Training and Travel (when applicable)~~ **Agency Codes (as applicable)**

~~c. Divisional/Local Programs (when applicable).~~

b. Update the REFERENCES page:

(c) DCMA-INST 710, "Managers' Internal Control Program," ~~September 19, 2012~~ **April 21, 2014**

- (d) DCMA-INST 552, "Information Security Program," ~~October 29, 2013~~ **August 15, 2014**
- (e) DCMA-ANX 213-01, Technical Support to Negotiations," ~~January 31, 2014~~ **March 20, 2014**
- (f) DCMA-INST 313, "International Request for Contract Administration Services," ~~November 23, 2013~~ **IPC-1, July 15, 2015**
- (i) DCMA-INST 402, "Workload Acceptance," ~~December 4, 2012~~ **April 3, 2014**
- (m) DCMA-INST 130, "Forward Pricing Rates," ~~July 26, 2013~~ **July 21, 2014**
- (p) **DCMA-INST 131, "Contractor Business Systems," November 6, 2013, IPC-1, December 1, 2015**

c. Change paragraph 3.1.1 to read:

3.1.1. **Receiving Requests for Support**. DCMA may receive field pricing support and negotiation support requests through the DCMA P&N eTool or outside of the P&N eTool (e.g., e-mail, letter). Do not enter field pricing support and negotiation support requests involving classified or CUI into the P&N eTool (DCMA-INST 552 (Reference (d))). ~~Refer to DCMA-INST 313 (Reference (f)) concerning OCONUS requests for support.~~ **For requesting field pricing support and assist audits for contractors OCONUS, refer to the "OCONUS Field Pricing and Assist Audit Information Sheet" located on the P&N Resource Page.**

d. Change subparagraphs 3.1.1.2.1 and 3.1.1.2.2 to read:

3.1.1.2.1. If the receiving DCMA activity is the appropriate supporting DCMA activity, the Assigned Individual, **or other designated individual (e.g., Pricing Lead), shall must** enter the request into the P&N eTool. ~~If the Assigned Individual does not enter the request into the P&N eTool, the Assigned Individual shall prepare a memorandum stating the rationale for not complying with this requirement. The Assigned Individual and an individual at least one level above the Assigned Individual shall sign and date (physically or electronically) the memorandum.~~

3.1.1.2.2. If the receiving DCMA activity is not the appropriate supporting DCMA activity, the Assigned Individual, **or other designated individual (e.g., Pricing Lead), shall must** identify the appropriate supporting DCMA activity, enter the request into the P&N eTool, and reassign the request through the P&N eTool. ~~If the Assigned Individual does not enter the request into the P&N eTool, the Assigned Individual shall prepare a memorandum stating the rationale for not complying with this requirement. The Assigned Individual and an individual at least one level above the Assigned Individual shall sign and date (physically or electronically) the memorandum and forward it with the request to the supporting DCMA activity.~~

e. Delete subparagraph 3.1.1.2.3 in its entirety.

~~3.1.1.2.3. If a request for support involves the definitization of an order or modification and/or proposal with multiple contract line item numbers (CLIN), contract sub-line item numbers (SLIN), or contract exhibit line item numbers (ELIN), the Assigned Individual shall enter the request only once in the P&N eTool. Do not split the request into multiple cases in the P&N eTool.~~

f. Change paragraph 3.1.1.4.1 to read:

3.1.1.4.1. A non-ICAT CMO receiving a request for field pricing support on a major proposal shall refer the request to the Director of Proposal Pricing for customer coordination. The Director of Proposal Pricing shall coordinate with the CMO Contracts Director and the Director of Technical Pricing to establish an evaluation approach and if necessary assemble a proposal surge-support team to augment the CMO staff. The cognizant CMO shall then perform the pricing evaluation with assistance from the Cost and Pricing Center. ***The Cost and Pricing Center Proposal Pricing Group has created an e-mail inbox for requesting surge-support. The e-mail address for this inbox is on the Resource Page for this Instruction.***

g. Change paragraph 3.1.2 and its subparagraphs to read:

3.1.2. ~~Field Pricing Support and Negotiation Support Cases.~~ ***Acknowledging Requests for Support. After reviewing the request, if if*** the DCMA activity cannot support the requested due date, the Assigned Individual shall contact the customer to negotiate an agreed upon due date prior to acknowledging the request. If an agreed upon due date cannot be established, the request for support may be canceled in accordance with this policy. The Assigned Individual shall acknowledge all field pricing support and negotiation support requests by accepting or canceling them through the P&N eTool or by other means if not entered in the P&N eTool. Accepting the request creates a Field Pricing Support Case or a Negotiation Support Case. Prior to accepting the request, determine if the requested support is within or outside of DCMA's current mission (refer to DCMA-INST 402, "Workload Acceptance" (Reference (i))) and if it is reimbursable (DCMA-INST 709, "International and Federal Business (Reimbursable and Non-Reimbursable Support)" (Reference (j))). ***The "Case File Index" located on the policy resource Web page must be used to organize the documents in the case file.***

3.1.2.1. The Assigned Individual ***of the contractor's cognizant CMO shall must*** determine if a proposal and other documents are required in order to provide the requested support. The Assigned Individual may accept the request to review ~~a prime the~~ contractor's proposal without receiving all the required documents but shall negotiate a receipt date with the customer. ***Refer to paragraph 3.3.5 for requesting subcontractor pricing support. However, a subcontractor field pricing support request from the prime contractor CMO (prime CMO) to the subcontractor CMO (sub CMO) must include the subcontractor's complete proposal. Upon receipt of an offeror's proposal, the Assigned Individual shall perform a proposal review to determine its adequacy and completeness as prescribed in this Instruction. If the Assigned Individual does not receive the required proposal or other required documents, the Assigned Individual shall elevate the issue to the first line supervisor and then to CMO Contracts Director to resolve within their DCMA activity. If still unresolved the DCMA activity shall elevate the issue within their Directorate, and if necessary to the DCMA Contracts Directorate (DCMA-AQ) for action. If still unresolved, the DCMA activity should consider canceling the request.***

3.1.2.2. Canceling a Request or Case. Prior to canceling a request or case for any reason, the Assigned Individual must seek concurrence from the customer. If the customer does not concur with the proposed cancellation, the Assigned Individual shall elevate the issue

to the first line supervisor and then to CMO Contracts Director, or the cost/price supervisor in the Special Programs Cost and Pricing Division who may authorize the cancellation of the request or case without customer concurrence. If the cancellation is authorized, the Assigned Individual shall cancel the request or case entered into the P&N eTool through the P&N eTool to document the cancellation. If not canceled through the P&N eTool the Assigned Individual shall send a memorandum to the customer signed by the individual authorizing the cancellation and insert a copy in the official file. If the cancellation is not authorized, the Assigned Individual shall support the request to the maximum extent practicable based on the information available and within the specified timeframe. ***Currently, only the individual that created the request or case in the P&N eTool can cancel it. If the creator of the request or case will not or is no longer available to cancel the request or case the cancellation can only be done with an incident report through the DCMA IT Service Center (Help Desk).***

h. Insert new paragraph 3.1.3:

3.1.3. Lead office for proposal review. The lead office (e.g., CMO) for compiling/completing the field pricing report for an external customer or internal requestor (e.g., CMO) is the cognizant CMO for the contractor entity responsible for preparing the proposal. Portions of the proposal may be prepared at other associated contractor entities with different cognizant CMOs. However, it is incumbent on the lead office to review and understand the complete proposal before requesting assistance from other CMOs.

i. Change paragraph 3.2.1 to read:

3.2.1. When determining the adequacy of the contractor's proposal, the Assigned Individual should consult with the auditor to discuss ongoing or potential audits. The contractor is required to complete DFARS provision 252.215-7009, "Proposal Adequacy Checklist" (Reference (k)) if incorporated in the requirement. If the DFARS provision is not contained in the requirement, the Assigned Individual shall use the checklist in the DFARS provision as part of the proposal adequacy review, along with any other appropriate criteria. ***The proposal adequacy review must be performed on any part of or whole proposal regardless of any adequacy determination made by the customer.***

j. Change paragraph 3.2.1.3 to read:

~~3.2.1.3. The assigned individual shall document proposal review and any unresolved proposal adequacy issues in the pricing case or PNOM.~~ ***The Assigned Individual should comment on adequacy of the entire proposal or the area of the proposal assigned to DCMA for review in the cost and pricing analysis report. The Assigned Individual must review the status of the contractor's business systems and the impact of any deficiencies on the current proposal in whole or in part depending on the customer's request. Refer to DCMA-INST 131 (Reference (p)) for guidance on contractor business systems.***

k. Change paragraph 3.2.2 and added subparagraphs to read:

~~3.2.2. **Subcontractor Proposal.** The Assigned Individual shall hold the prime contractor or higher tier subcontractor (hereafter prime contractor) accountable for the submission and analysis of cost or pricing data from subcontractors or low tier subcontractors (hereafter subcontractor) proposals above the thresholds specified in FAR 15.404-3(c) (Reference (g)). The Assigned Individual shall ensure the cognizant DCMA activities and DCAA offices are provided sufficient documentation to successfully complete the requested support in determining fair and reasonable prime contract and subcontract prices. Refer to FAR 15.404-2(d) (Reference (g)) and paragraph 3.2.1.2 of this Instruction concerning deficient proposals. *The assigned individual shall document proposal adequacy review and any unresolved proposal adequacy issues in the pricing case file and in any subsequent proposal analysis documentation (refer to paragraph 3.3.8).*~~

3.2.2.1. The proposal adequacy review documentation must include an explicit statement on the adequacy of the information received for an analysis (i.e., “The proposal and/or information received was adequate to support a recommended position for negotiation on the proposal elements analyzed.”).

3.2.2.2. The proposal adequacy review concerning Cost Accounting Standards (CAS) must include, at a minimum, a review for CAS 401 and 402 compliance and compliance with disclosed practices. If there are non-compliances, they must be addressed accordingly. If no non-compliances were identified the following statement, or similar statement, must be included in the proposal adequacy review documentation: “During the review of the proposal, in whole or in part, we found no instances of noncompliance with FAR Part 31 or DFARS Part 231.” This statement documents our review of the proposal for CAS and disclosed practices compliance and found no non-compliances.

l. Change paragraph 3.3.2.2 to read:

3.3.2.2. Cost analysis is the review and evaluation of any of the separate cost elements and profit or fee in an offeror’s or a contractor’s proposal as needed **by the contracting officer** to determine a fair and reasonable price or to determine cost realism. It is also the application of judgment to determine how well the proposed costs represent what the cost of the contract should be assuming reasonable economy and efficiency. (FAR 15.404-1(c), Reference (g))

m. Add paragraph 3.3.2.2.3:

3.3.2.2.3. FAR 15.404-1(a)(3) (Reference (g)) does not require a price analysis when certified cost or pricing data are required, however, the Assigned Individual must comment on price analysis in the proposal analysis documentation. If a price analysis cannot be performed as prescribed at FAR 15.404-1(b) (Reference (g)), the Assigned Individual must explain why in the proposal analysis documentation.

n. Change paragraph 3.3.4.1 to read:

3.3.4.1. DCAA decides to audit the prime contractor’s proposal. The Assigned Individual shall coordinate with the prime contractor’s **cognizant** DCAA

office in determining audit requirements and pricing risk of its subcontractors, *and requests for subcontractor audit assistance. A subcontractor audit requested by the subcontractor's cognizant CMO must be coordinated with the prime contractor's cognizant CMO who, in turn, must coordinate with the prime contractor's cognizant DCAA office. If DCAA decides not to audit the subcontractor, the cognizant CMO should ask what other assistance DCAA could provide. The Assigned Individual should then discuss the field pricing support options with the pricing supervisor/Pricing Lead, CMO ICAT Director, and CMO Contracts Director as appropriate.*

- o. Delete subparagraphs 3.3.4.1.1 and 3.3.4.1.2 in their entirety.

~~3.3.4.1.1. For subcontractor proposals the prime contractor DCAA office selects for audit, the request for a subcontractor audit must go through the prime contractor DCAA office to the subcontractor DCAA office. The prime contractor CMO (prime CMO) may request subcontractor field pricing support from the subcontractor CMO (sub-CMO) in support of the subcontractor audit. If the prime CMO requests sub-CMO support, the sub-CMO becomes the primary point of contact to the subcontractor DCAA office.~~

~~3.3.4.1.2. For subcontractor proposals the prime contractor DCAA office does not select for audit, but are selected by the DCMA customer for analysis, the prime CMO shall coordinate with DCAA regarding the possibility for additional assistance and if that is not successful with the sub-CMO to arrange for subcontractor field pricing support.~~

- p. Change paragraph 3.3.5 to read:

3.3.5. Subcontractor Pricing Considerations. The Assigned Individual *of the contractor's cognizant CMO* should consider the need for subcontractor field pricing support (hereafter subcontractor support) from another DCMA activity (*e.g., CMO*) to evaluate a subcontractor proposal at any tier if deemed necessary to ensure the reasonableness of the total proposed price. A request for subcontractor support may come ~~to the prime contractor CMO (prime CMO)~~ from ~~the prime~~ a contractor (~~also applicable to a prime contractor or~~ higher-tier subcontractor), *from another CMO*, or *directly* from the customer. *A contractor's request for subcontractor support must go through their cognizant CMO not directly to the subcontractor's cognizant CMO.* The *cognizant CMO* for the subcontractor ~~CMO (sub-CMO)~~ shall not accept a request for subcontractor support directly from a ~~prime~~ contractor and shall inform the *contractor's cognizant CMO* of the request ~~from the prime contractor~~. It is permissible for a customer to submit a request for subcontractor support directly to the ~~sub-CMO~~ *subcontractor's cognizant CMO*; however, ~~the sub-that~~ CMO shall coordinate with the *prime contractor's cognizant CMO* before accepting the request to ensure there is no duplication of effort.

- q. Change paragraph 3.3.5.1 and add subparagraphs to read:

3.3.5.1. Prime Contractor Requested Support. The ~~prime~~ contractor must submit a request for subcontractor support in writing to ~~the prime~~ *their cognizant CMO and not directly to the cognizant subcontractor CMO. A subcontractor CMO receiving a request*

directly from a contractor must forward the request to the contractor's cognizant CMO.

3.3.5.1.1. The request must include ~~the subcontractor's proposal, documentation of~~ a description of the ~~prime~~ contractor's efforts to evaluate the subcontractor's proposal ~~along with and~~ a copy of the letter or letters from the subcontractor denying access to some or all of its records, *and all information or data the subcontractor provided to the contractor (e.g., sanitized or restricted proposal along with a written assertion from the subcontractor stating the extent of government access to their data.*

3.3.5.1.2. Upon receipt of the ~~prime~~-contractor's request and supporting documents, the *cognizant CMO's* Assigned Individual shall consider whether providing the requested support will serve a valid Government interest. The Assigned Individual shall provide the ~~prime~~ contractor with a written ~~decision~~ *response* either accepting or denying the request.

3.3.5.1.3. *If the contractor's requested subcontractor support is accepted, the accepting CMO must prepare a subcontractor support request package containing all the documents and information received from the contractor, and the written response to accept the request. Refer to 3.3.5.2 for additional guidance on a CMO requesting support from another CMO.*

r. Change paragraph 3.3.5.2 its subparagraphs to read:

3.3.5.2. ~~Prime~~-CMO Requested Support. If ~~prime-a~~ CMO (*requesting CMO*) requests a subcontractor *support for a contractor proposal review from another CMO (receiving CMO)*, the ~~prime-requesting~~ CMO Assigned Individual must prepare a subcontractor support request package for the ~~sub-receiving~~ CMO *as prescribed in 3.3.5.1. A complete package includes a written description of the support required, a requested due date for the support, and an adequate subcontractor proposal.* *The requesting CMO must submit the request for support through the P&N eTool using the subcontractor's CAGE code. The two CMOs must determine the best method of transmitting the subcontractor support request package. Do not transmit contractor proprietary data through the P&N eTool.* Upon receipt of the complete subcontractor support *request* package, the ~~sub-receiving~~ CMO shall perform the requested subcontractor support.

3.3.5.2.1. If the ~~prime-requesting~~ CMO does not provide a complete *subcontractor support request* package, the ~~sub-receiving~~ CMO shall inform the ~~prime-requesting~~ CMO of the missing information. If the ~~prime-requesting~~ CMO does not provide the missing information *within three business days*, the ~~sub-receiving~~ CMO may *decide to either accept or deny* the request.

3.3.5.2.2. If the ~~sub-receiving~~ CMO decides to deny the request due to an incomplete package or for another reason, the ~~sub-receiving~~ CMO Contracts Director shall contact the ~~prime-requesting~~ CMO Contracts Director to resolve the issue. If these Contracts Directors cannot resolve the issue, the ~~prime-requesting~~ CMO Contracts Director should elevate the issue within the CMO. If still unresolved, the ~~prime-requesting~~ CMO Contracts Director or higher-level management shall elevate the issue outside of the CMO. For CMOs

within the same Directorate, Directorate management shall resolve the issue. For CMOs not within the same Directorate, the two Directorates shall attempt to resolve the issue. If still unsolved, the Executive Director, Contracts shall resolve the issue.

3.3.5.2.3. Upon accepting the request for subcontractor support, the receiving CMO must request the necessary information (e.g., an adequate proposal) from the subcontractor to provide the requested support. The receiving CMO must keep the requesting CMO Assigned Individual abreast of efforts to obtain the required information. If all the efforts to obtain the requested information have been unsuccessful, the receiving CMO must notify the requesting CMO Assigned Individual in writing. The written notification must document the efforts taken to obtain the required information and the responses from the subcontractor.

3.3.5.2.4. The requesting CMO must make all receiving CMOs currently preparing reports aware of any changes in requirements at the higher-tier proposal level affecting their subcontract requested support. Requirements at the receiving CMOs may need to be stopped and subsequently be restarted based on the materiality of the changes. Effective communication is important when this occurs so that all parties analyzing costs throughout the supply chain are aware of a need to obtain additional information or pause to await further instruction.

s. Change paragraph 3.3.5.3 to 3.3.5.2.5 and to read:

~~3.3.5.3.~~***3.3.5.2.5.*** Upon completion of the subcontractor support, the ~~sub-receiving~~ CMO shall prepare a cost and pricing analysis report documenting the ***full*** proposal analysis as prescribed in section 3.4. If other than a ***full*** proposal analysis, the ~~sub-receiving~~ CMO may prepare a memorandum, instead of ~~a using the~~ cost and pricing analysis report ***template***, signed by the preparer and at least one level above the preparer. For a ~~prime~~-contractor request for support, the ~~prime-requesting~~ CMO shall furnish the ~~prime~~-contractor, with the consent of the subcontractor, a summary of the analysis performed in determining any unacceptable costs included in the subcontract proposal. If the subcontractor withholds consent, the ~~sub-receiving~~ CMO shall furnish a range of acceptable costs for each element in such a way as to prevent disclosure of subcontractor proprietary data. The cost and pricing analysis report may include a summary of analysis. (DFARS/PGI 215.404-3(a)(iii), Reference (h))

t. Delete existing paragraph 3.3.6 and replace with a new paragraph 3.3.6:

~~3.3.6. DFARS/PGI 215.404-1(a)(i)(A)-(F) (Reference (h)) provides steps to follow if the contractor does not provide sufficient data to complete the proposal analysis to determine fair and reasonable prices. DFARS 215.404-1(2) (Reference (k)) has additional proposal analysis requirements for the procurement of spare parts or support equipment.~~

3.3.6. Commercial Item Support. The DCMA Cost and Pricing Center Commercial Item Group (CIG) has the capability to provide commercial item determination support and commercial item pricing support which includes technical evaluations. A CMO may provide the customer requested commercial item support or request assistance from the CIG.

3.3.6.1. When providing commercial item determination support, the recommendation must include the following or similar statement: “The information provided in the request for commercial item determination support does not constitute a commercial item determination but is provided to assist a contracting officer in making that determination.”

3.3.6.2. When providing commercial item pricing support, the recommendation must include the following, or similar, statement: “The commercial item pricing support recommendations provided herein form an adequate basis for negotiation of a fair and reasonable price.”

3.3.6.3. Details concerning the type of services the CIG can provide and information on commercial item acquisition are located on the Pricing and Negotiation Resource Page under the “Guidance” section.

- u. Change paragraph 3.3.8 and add subparagraphs to read:

3.3.8. The Assigned Individual shall document the results of the proposal analysis in the PNOM, in a memorandum, or in a cost and pricing analysis report. Only a full proposal analysis must be documented using the cost and pricing analysis report template. The proposal analysis document must include statements concerning proposal adequacy, cost element and proposal analysis recommendations.

3.3.8.1. Proposal Adequacy. Include a statement on the proposal adequacy review as required in paragraph 3.2.2.

3.3.8.2. Cost element and proposal analysis recommendations. Include a statement or statements concerning the recommendations provided such as “The cost element and/or proposal analysis recommendations provided herein form an adequate basis for negotiation of a fair and reasonable price.”

- v. Add new paragraph 3.3.9.

3.3.9. The Assigned Individual must document the performance of a risk assessment, or the evaluation of the customer’s risk assessment, and the actions taken to mitigate identified risks in the case file.

- w. Change paragraph 3.4.1 and its subparagraphs to read:

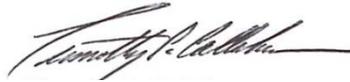
3.4.1. The Assigned Individual shall prepare a cost and pricing analysis report to document the a full proposal analysis. Document a partial proposal analysis or other types of pricing cases (other than a full proposal analysis) using either a cost and pricing analysis report or in a memorandum to the requestor. The report shall address all the findings and recommendations from DCMA functional areas (e.g., technical analysis report) and non-DCMA activities (e.g., DCAA). A cost and pricing analysis report prepared for DCAA does not require comments on proposal adequacy, status of the contractor’s business systems, or CAS compliance. For technical support to negotiation request (TSN only), the Assigned

Individual (contracting) will prepare a report incorporating the TSN report and include any pertinent supplemental information.

3.4.1.1. The cost and pricing analysis report shall clearly state the proposal analysis techniques used, adequately reference the supporting documents, and identify the requirement for or the prohibition on obtaining certified cost or pricing data (FAR 15.403 and 15.404 (Reference (g)), DFARS 215.403 and 215.404 (Reference (k)), and DFARS/PGI 215.403 and 215.404 (Reference (h))). ***The cost and pricing analysis report must also address the status of the contractor's business systems as prescribed in DCMA-INST 131, "Contractor Business Systems," (Reference (p)) and how any system deficiencies impact the proposed cost.***

3.4.1.2. If ~~the prime a~~ contractor receives subcontractor support, the ~~sub-receiving~~ CMO ***for the requested subcontractor support*** shall prepare a complete cost and pricing analysis report with the written restrictions from the subcontractor concerning the release of its data to the prime contractor attached. The ~~sub-receiving~~ CMO shall also prepare a second releasable report conforming to the written restrictions from the subcontractor for release to the prime contractor. The ~~sub-receiving~~ CMO shall not provide the releasable report directly to the ~~prime the requesting~~ contractor unless specifically authorized by the requesting CMO. The ~~prime-requesting~~ CMO shall ensure the releasable report prepared by the ~~sub-receiving~~ CMO complies with the subcontractor's written restrictions ***before releasing it to the requesting contractor.***

6. EFFECTIVE DATE. By order of the Director, DCMA, this IPC is effective immediately and shall remain in effect until rescinded, superseded or incorporated in a DCMA policy, whichever is sooner.



Timothy P. Callahan
Executive Director
Contracts



**DEPARTMENT OF DEFENSE
Defense Contract Management Agency**

INSTRUCTION

Pricing and Negotiation

**Contracts Directorate
CPR: DCMA-AQ**

**DCMA-INST 120
April 1, 2014**

1. PURPOSE. This Instruction:

- a. Reissues and revises DCMA Instruction (DCMA-INST) 120, “Pricing and Negotiation – Contracts” (Reference (a)).
- b. Updates Agency policy, responsibilities, and procedures for contract pricing and negotiation.
- c. Implements Government policy pursuant to the references listed within the policy.
- d. Complies with DoD Directive 5105.64, “Defense Contract Management Agency (DCMA)” (Reference (b)).

2. APPLICABILITY. This Instruction applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence.

3. MANAGERS’ INTERNAL CONTROL PROGRAM. In accordance with DCMA-INST 710, “Managers’ Internal Control Program” (Reference (c)), this Instruction is subject to evaluation and testing. Process flowcharts are located on the policy resource Web page (resource page) for this Instruction.

4. RELEASABILITY – UNLIMITED. This Instruction approved for public release.

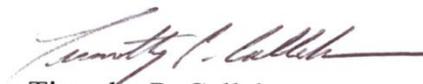
5. PLAS CODE.

- a. Process: 041 – Pricing and Negotiation.
- b. National Programs: ACAT/Other Customers; Other National; Training and Travel (when applicable)
- c. Divisional/Local Programs (when applicable).

6. POLICY RESOURCE WEB PAGE. <https://home.dcma.mil/policy/120r>

April 1, 2014

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective April 1, 2014, and all applicable activities shall be fully compliant within 60 days from this date.



Timothy P. Callahan
Executive Director
Contracts

SUMMARY OF CHANGES

This Instruction has been rewritten. The following identifies most of the notable updates.

- Fully integrating the revisions made in Change 1 to subject policy (March 5, 2013)
- Adding additional references and making corrections to existing references
- Emphasizing the need to protect classified and controlled unclassified information
- Consolidating some of the responsibilities under broader position titles in Chapter 2
- Providing additional guidance for properly marking documents containing government information and contractor proprietary data
- Adding the requirement to use the “Case File Documentation Checklist” found on the policy resource page
- Removing the Process Flowcharts with the Key Control Chart from the policy publication and placing it on the policy resource page

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REFERENCES

- (a) DCMA-INST 120, "Pricing and Negotiation – Contracts," July 31, 2012, as amended (hereby canceled)
- (b) DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
- (c) DCMA-INST 710, "Managers' Internal Control Program," September 19, 2012
- (d) DCMA-INST 552, "Information Security Program," October 29, 2013
- (e) DCMA-ANX 213-01, Technical Support to Negotiations," January 31, 2014
- (f) DCMA-INST 313, "International Request for Contract Administration Services," November 23, 2013
- (g) Federal Acquisition Regulation (FAR)
- (h) DFARS Procedures, Guidance, and Information (DFARS/PGI)
- (i) DCMA-INST 402, "Workload Acceptance," December 4, 2012
- (j) DCMA-INST 709, "International and Federal Business (Reimbursable and Non-Reimbursable Support)," March 10, 2014
- (k) Defense Federal Acquisition Regulation Supplement (DFARS)
- (l) DoDM 5200.01, Volume 4, "DoD Information Security Program: Controlled Unclassified Information (CUI)," February 24, 2012
- (m) DCMA-INST 130, "Forward Pricing Rates," July 26, 2013
- (n) DCMA-INST 134, "Boards of Review," November 4, 2013
- (o) DCMA-INST 809, "Records Management," May 2011

CHAPTER 1

POLICY

1.1. POLICY. It is DCMA policy to provide quality and timely field pricing support and negotiation support to the DoD, non-DoD Federal agencies and departments, and other DCMA activities in order to determine and obtain fair and reasonable contract prices.

1.2. PROTECTING CLASSIFIED AND CONTROLLED UNCLASSIFIED INFORMATION (CUI). Protecting information is critical and integral when conducting the processes associated with this Instruction. DCMA personnel are responsible for protecting classified and CUI entrusted to them. DCMA personnel shall take prudent steps to ensure final disposition of classified and CUI per DCMA and DoD policy. These procedures vary based on the type, access and nature of the material involved. Refer to the DCMA-INST 552, “Information Security Program” (Reference (d)), for guidance in the control, transmission, destruction, and storage of such material.

1.3. DELEGATION OF RESPONSIBILITIES. The individuals holding the positions listed in Chapter 2 of this Instruction may delegate their responsibilities unless expressly prohibited by this Instruction, another DCMA Instruction, higher-level guidance, regulations, law, or statute. The individual delegated the responsibility does not have the authority to further delegate the responsibility.

CHAPTER 2

RESPONSIBILITIES

2.1. OVERVIEW. This chapter defines the roles and responsibilities of individuals who are primarily responsible for the execution of the policy established in this Instruction. This chapter identifies the key officials who must carry out the policy and lists the overarching obligations and associated duties that each individual must perform.

2.2. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR. The Commander/Director is responsible for the CMO's compliance with this Instruction.

2.3. CMO CONTRACTS DIRECTOR. The CMO Contracts Director's responsibilities include:

2.3.1. Resolving issues relating to proposal adequacy, canceling of pricing requests, and assist audits.

2.3.2. Reviewing pre-negotiation objectives memorandums (PNOM) and the price negotiation memorandums (PNM) as prescribed in this Instruction.

2.4. ADMINISTRATIVE CONTRACTING OFFICER (ACO). The ACO's responsibilities include:

2.4.1. Determining the requirement or prohibition on obtaining certified cost or pricing data.

2.4.2. Determining the requirement for obtaining other than certified cost or pricing data when cost or pricing data are not required.

2.4.3. Determining the reasonableness of the proposed pricing

2.4.4. Establishing the pre-negotiation objectives, preparing the PNOM, and obtaining the appropriate levels of review and concurrence prior to conducting the negotiation.

2.4.5. Conducting the negotiation, documenting the negotiation results in the PNM, and obtaining the appropriate levels of review and concurrence for the PNM.

2.4.6. The actions of the Assigned Individual acting under his or her authority as a contracting officer.

2.5. ASSIGNED INDIVIDUAL. The Assigned Individual may have a position description or the title of ACO, cost/price analyst, contract specialist, contract administrator, or any technical role. Refer to DCMA Annex (DCMA-ANX) 213-01, "Technical Support to Negotiations" (Reference (e)) for the roles and responsibilities of the technical personnel not specifically addressed in this Instruction. The following responsibilities may vary based on the position of the Assigned Individual. The Assigned Individual's responsibilities normally include:

2.5.1. Entering field pricing or negotiation support requests not received through the Pricing and Negotiation (P&N) eTool into the P&N eTool and acknowledging assigned requests through the P&N eTool.

2.5.2. Elevating unresolved issues concerning a request or case.

2.5.3. Obtaining approval from the Contracts Director prior to canceling a request or case.

2.5.4. Reviewing proposals for adequacy and evaluating the proposed pricing.

2.5.5. Requesting field pricing or audit assistance as needed to evaluate the proposal from the prime contractor.

2.5.6. Determining the necessity for subcontract field pricing or audit assistance to the prime contractor or a high-tier subcontractor when a subcontractor denies access to their data and requesting the required assistance if determined necessary.

2.5.7. Requesting assistance from functional areas within the DCMA activity, the Defense Contract Audit Agency (DCAA), or an outside the Continental United States (OCONUS) cognizant Host Nation audit agency as deemed necessary. Refer to DCMA-INST 313, "International Request for Contract Administration Services" (Reference (f)).

2.5.8. Dispositioning audit report findings applicable to an assigned case.

2.5.9. Inviting the DCAA office issuing the audit report (in support of the requirement) to attend the negotiation.

2.5.10. Providing a copy of the PNM to all activities providing field pricing or audit assistance.

2.5.11. Updating assigned field pricing support or negotiation support request and case information in the P&N eTool and, upon completion, close the case in the P&N eTool.

2.5.12. Maintaining the documents used to prepare the cost and pricing analysis report for their assigned cases.

2.5.13. Signing as preparer or as ACO (as appropriate), the cost and pricing analysis report prepared for their assigned cases.

2.6. PRICING LEAD. The Pricing Lead is the individual having supervisory or non-supervisory oversight of assigned cost/price analysts. Some of the actual titles of individuals holding the Pricing Lead position include pricing chief, pricing team lead, and pricing supervisor. The Pricing Lead is responsible for reviewing the case file, and reviewing and signing the cost and pricing analysis report before releasing it to the customer or the requesting DCMA activity.

2.7. CMO INTEGRATED COST ANALYSIS TEAM (ICAT) DIRECTOR. The CMO ICAT Director's responsibilities include:

2.7.1. Ensuring the ICAT members have the necessary skills and training to fully support negotiation efforts and to provide quality Proposal Pricing products to customers.

2.7.2. Establishing a team to work closely with customers and DCAA as a single Government team to analyze costs while minimizing workload redundancy.

2.7.3. Coordinating with the cognizant CMO for other segments of the same contractor for information relevant for the ICAT proposal analysis.

2.7.4. Ensuring quality work products from the ICAT.

2.8. DIRECTOR OF COST AND PRICING DIVISION, SPECIAL PROGRAMS DIRECTORATE (SPECIAL PROGRAMS). The Director of Cost and Pricing Division, Special Programs responsibilities include:

2.8.1. Meeting regularly with DCMA-Special Programs customers (i.e., high-level personnel involved in acquisitions) to gain intelligence on an incoming major proposal.

2.8.2. Coordinating with customers as necessary to ensure a major proposal analysis receives the required level of support.

2.8.3. Directing the work of the Pricing Leads in the Special Programs Cost and Pricing Division.

2.9. DIRECTOR OF PROPOSAL PRICING, COST AND PRICING CENTER. The Director of Proposal Pricing, Cost and Pricing Center's responsibilities include:

2.9.1. Serving as the primary initial link to coordinate major proposal support with CMO with or without an ICAT.

2.9.2. Requesting business and technical resources from Cost and Pricing Center Hub Sites and from the Price Fighters (Navy organization providing various types of cost, price, and engineering analyses for government customers) to augment CMO resources when necessary.

2.9.3. Coordinating with the Director of Technical Pricing, Hub Sites, and CMO Contracts Directors to assemble a proposal surge-support team to assist a CMO for immediate major proposal support.

2.9.4. Coordinating with the DCMA Operations Directorate and the Data Analysis, Training, and Recruitment Group in the Cost and Pricing Center to identify training needs for pricing resources.

2.9.5. Coordinating field pricing support with the CMO Contracts Director at subcontractor locations in support of major proposals.

2.10. DIRECTOR OF TECHNICAL PRICING, COST AND PRICING CENTER. The Director of Technical Pricing, Cost and Pricing Center's responsibilities include:

2.10.1. Assisting the Director of Proposal Pricing in gathering the technical resources necessary to support major proposals at non-ICAT locations.

2.10.2. Coordinating with the CMO Engineering and Analysis Directors and technical resources in the Cost and Pricing Center in assembling a proposal surge-support team for major proposal support to the Director of Proposal Pricing

2.11. DIRECTOR OF COST AND PRICING CENTER. The Director of Cost and Pricing Center's responsibilities include:

2.11.1. Meeting regularly with DCMA customers (i.e., high-level personnel involved in acquisitions) for information concerning pending major proposals.

2.11.2. Ensuring major proposals receive the required level of support.

2.11.3. Ensuring the Cost and Pricing Center provides timely and effective Proposal Pricing support.

2.11.4. Establishing a proactive forecasting strategy to identify major proposals that would require DCMA field pricing support.

2.12. COST AND PRICING CENTER, PROPOSAL ANALYSIS REGIONAL HUB SITES. The Hub Sites are responsible for assisting non-ICAT and ICAT CMOs on major proposal reviews as directed by the Director of the Cost and Pricing Center and the Director of Proposal Pricing.

CHAPTER 3 PROCEDURES

3.1. FIELD PRICING SUPPORT AND NEGOTIATION SUPPORT REQUESTS.

3.1.1. DCMA may receive field pricing support and negotiation support requests through the DCMA P&N eTool or outside of the P&N eTool (e.g., e-mail, letter). Do not enter field pricing support and negotiation support requests involving classified or CUI into the P&N eTool (DCMA-INST 552 (Reference (d))). Refer to DCMA-INST 313 (Reference (f)) concerning OCONUS requests for support.

3.1.1.1. Requests for Support Received through the P&N eTool. The DCMA activity receiving the request shall assign an individual (e.g., Assigned Individual, cost/price analyst) to review the request in order to determine the appropriate supporting DCMA activity. If the receiving DCMA activity is not the appropriate supporting DCMA activity, the Assigned Individual shall identify the appropriate supporting DCMA activity and reassign the request through the P&N eTool.

3.1.1.2. Requests for Support Received Outside of the P&N eTool. The DCMA activity receiving the request shall select an Assigned Individual to review the request to determine the appropriate supporting DCMA activity and enter the request into the P&N eTool.

3.1.1.2.1. If the receiving DCMA activity is the appropriate supporting DCMA activity, the Assigned Individual shall enter the request into the P&N eTool. If the Assigned Individual does not enter the request into the P&N eTool, the Assigned Individual shall prepare a memorandum stating the rationale for not complying with this requirement. The Assigned Individual and an individual at least one level above the Assigned Individual shall sign and date (physically or electronically) the memorandum.

3.1.1.2.2. If the receiving DCMA activity is not the appropriate supporting DCMA activity, the Assigned Individual shall identify the appropriate supporting DCMA activity, enter the request into the P&N eTool, and reassign the request through the P&N eTool. If the Assigned Individual does not enter the request into the P&N eTool, the Assigned Individual shall prepare a memorandum stating the rationale for not complying with this requirement. The Assigned Individual and an individual at least one level above the Assigned Individual shall sign and date (physically or electronically) the memorandum and forward it with the request to the supporting DCMA activity.

3.1.1.2.3. If a request for support involves the definitization of an order or modification and/or proposal with multiple contract line item numbers (CLIN), contract sub-line item numbers (SLIN), or contract exhibit line item numbers (ELIN), the Assigned Individual shall enter the request only once in the P&N eTool. Do not split the request into multiple cases in the P&N eTool.

3.1.1.3. If the requested support is for a DCAA audit only with no additional assistance from DCMA, the DCMA Assigned Individual should remind the customer of Federal Acquisition Regulation (FAR) 15.404-2(c)(1) (Reference (g)) which reads “The contracting officer should contact the cognizant audit office directly, particularly when an audit is the only field pricing support required.” If the customer requests DCMA to coordinate the audit request, the DCMA activity shall support the customer’s request. If the customer subsequently decides to go directly to DCAA without DCMA involvement, the Assigned Individual shall cancel the request in accordance with this Instruction. Defense Federal Acquisition Supplement/ Procedures, Guidance, and Information (DFARS/PGI) 225.872-6 (Reference (h)) addresses OCONUS audit requests.

3.1.1.4. Requests for Field Pricing Support on Major Proposals. A major proposal is an offeror’s proposal exceeding \$250 million. The Assigned Individual shall refer all major proposal requests relating to Special Access Programs or Sensitive Compartmented Information to the Special Programs, Director of Cost and Pricing Division.

3.1.1.4.1. A non-ICAT CMO receiving a request for field pricing support on a major proposal shall refer the request to the Director of Proposal Pricing for customer coordination. The Director of Proposal Pricing shall coordinate with the CMO Contracts Director and the Director of Technical Pricing to establish an evaluation approach and if necessary assemble a proposal surge-support team to augment the CMO staff. The cognizant CMO shall then perform the pricing evaluation with assistance from the Cost and Pricing Center.

3.1.1.4.2. An ICAT CMO is not required to coordinate major proposals with the Director of Proposal Pricing. However, the CMO ICAT Director may request support from the Director of Proposal Pricing if necessary. The CMO ICAT Director shall coordinate with CMOs who are cognizant of the same contractor entity at other locations, as needed, to assemble a pricing team that will provide a business segment analysis of the contractor’s proposal.

3.1.2. Field Pricing Support and Negotiation Support Cases. If the DCMA activity cannot support the requested due date, the Assigned Individual shall contact the customer to negotiate an agreed upon due date prior to acknowledging the request. If an agreed upon due date cannot be established, the request for support may be canceled in accordance with this policy. The Assigned Individual shall acknowledge all field pricing support and negotiation support requests by accepting or canceling them through the P&N eTool or by other means if not entered in the P&N eTool. Accepting the request creates a Field Pricing Support Case or a Negotiation Support Case. Prior to accepting the request, determine if the requested support is within or outside of DCMA’s current mission (refer to DCMA-INST 402, “Workload Acceptance” (Reference (i))) and if it is reimbursable (DCMA-INST 709, “International and Federal Business (Reimbursable and Non-Reimbursable Support)” (Reference (j))).

3.1.2.1. The Assigned Individual shall determine if a proposal and other documents are required in order to provide the requested support. The Assigned Individual may accept the request to review a prime contractor’s proposal without receiving all the required documents but shall negotiate a receipt date with the customer. However, a subcontractor field pricing support request from the prime contractor CMO (prime-CMO) to the subcontractor CMO (sub-CMO)

must include the subcontractor's complete proposal. Upon receipt of an offeror's proposal, the Assigned Individual shall perform a proposal review to determine its adequacy and completeness as prescribed in this Instruction. If the Assigned Individual does not receive the required proposal or other required documents, the Assigned Individual shall elevate the issue to the first line supervisor and then to CMO Contracts Director to resolve within their DCMA activity. If still unresolved the DCMA activity shall elevate the issue within their Directorate, and if necessary to the DCMA Contracts Directorate (DCMA-AQ) for action. If still unresolved, the DCMA activity should consider canceling the request.

3.1.2.2. Canceling a Request or Case. Prior to canceling a request or case for any reason, the Assigned Individual must seek concurrence from the customer. If the customer does not concur with the proposed cancellation, the Assigned Individual shall elevate the issue to the first line supervisor and then to CMO Contracts Director, or the cost/price supervisor in the Special Programs Cost and Pricing Division who may authorize the cancellation of the request or case without customer concurrence. If the cancellation is authorized, the Assigned Individual shall cancel the request or case entered into the P&N eTool through the P&N eTool to document the cancellation. If not canceled through the P&N eTool the Assigned Individual shall send a memorandum to the customer signed by the individual authorizing the cancellation and insert a copy in the official file. If the cancellation is not authorized, the Assigned Individual shall support the request to the maximum extent practicable based on the information available and within the specified timeframe.

3.1.2.3. A field pricing support case involves evaluating an offeror's proposal. The evaluation may include some or all of the cost elements and the proposed profit in the proposal. Field pricing support may involve requesting field pricing support from another DCMA activity (e.g., subcontractor proposal analysis) or audit assistance from DCAA.

3.1.2.4. A negotiation support case involves proposal analysis, establishing and documenting pre-negotiation objectives, conducting and documenting the negotiation, and executing the resulting contract action. Negotiation support may require field pricing support or negotiation support from another DCMA activity.

3.1.2.5. The Assigned Individual is responsible for updating assigned field pricing support or negotiation support request and case information in the P&N eTool and, upon completion, close the case in the P&N eTool. The Assigned Individual shall review all reports (e.g., cost and pricing analysis report, technical analysis report) for the appropriate levels review and concurrence prior to their release to the customer or other DCMA activity.

3.1.2.6. The Assigned Individual at the prime contractor or subcontractor level shall complete the "Case File Documentation Checklist" located on the policy resource Web page for every field pricing support and negotiation support case involving a proposal analysis whether or not we have been asked to review parts or all of a proposal. A checklist is not required when the Assigned Individual is supporting negotiation and reviewing updated information after submission of a report or taking phone inquiries usually not requiring the creation of a case. Use a single checklist to document a combined proposal analysis and negotiation support. The official case file shall contain the completed checklist.

3.2. PROPOSAL ADEQUACY REVIEW.

3.2.1. When determining the adequacy of the contractor's proposal, the Assigned Individual should consult with the auditor to discuss ongoing or potential audits. The contractor is required to complete DFARS provision 252.215-7009, "Proposal Adequacy Checklist"(Reference (k)) if incorporated in the requirement. If the DFARS provision is not contained in the requirement, the Assigned Individual shall use the checklist in the DFARS provision as part of the proposal adequacy review, along with any other appropriate criteria.

3.2.1.1. The Assigned Individual for a prime contractor location should normally wait for the receipt of an adequate proposal prior to accepting a field pricing support or negotiation support request. However, the Assigned Individual may decide to accept the request prior to the receipt of an adequate proposal.

3.2.1.2. For an offeror's proposal not determined adequate, the Assigned Individual shall take the necessary actions to obtain an adequate proposal, including contacting the procuring activity or the contractor to discuss the deficiencies. FAR 15.404-2(d) (Reference (g)) provides other actions the Assigned Individual may take if the contractor does not provide sufficient data. The Assigned Individual shall elevate any unresolved proposal adequacy issues to the first line supervisor and then to the CMO Contracts Director. If still unable to resolve, the Assigned Individual shall consider canceling the request or case as prescribed in paragraph 3.1.2.2. of this Instruction.

3.2.1.3. The assigned individual shall document proposal review and any unresolved proposal adequacy issues in the pricing case or PNOM.

3.2.2. Subcontractor Proposal. The Assigned Individual shall hold the prime contractor or higher-tier subcontractor (hereafter prime contractor) accountable for the submission and analysis of cost or pricing data from subcontractors or low-tier subcontractors (hereafter subcontractor) proposals above the thresholds specified in FAR 15.404-3(c) (Reference (g)). The Assigned Individual shall ensure the cognizant DCMA activities and DCAA offices are provided sufficient documentation to successfully complete the requested support in determining fair and reasonable prime contract and subcontract prices. Refer to FAR 15.404-2(d) (Reference (g)) and paragraph 3.2.1.2. of this Instruction concerning deficient proposals.

3.3. PROPOSAL ANALYSIS.

3.3.1. The objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable. The complexity and circumstances of each acquisition should determine the level of detail and analysis required (FAR 15.404, DFARS 215.404, and DFARS/PGI 215.404 (References (g), (k), and (h))).

3.3.2. Proposal Analysis Techniques. FAR 15.404-1 (Reference (g)) lists and describes many of proposal analysis techniques available. A proposal analysis may require the use of one technique or a combination of techniques. Price analysis and cost analysis are the most

commonly used techniques and most of the time used in combination. DFARS 215.404-1 and DFARS/PGI 215.404-1 (References (k) and (h)) provide supplemental guidance on proposal analysis techniques. The Assigned Individual shall select the techniques used in the analysis

3.3.2.1. Price analysis is the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit. FAR 15.404-1(b)(2) (Reference (g)) lists various types of price analysis techniques to use in determining price reasonableness.

3.3.2.1.1. The proposal analysis shall include price analysis if certified cost or pricing data are not required.

3.3.2.1.2. The proposal analysis should include price analysis to verify that the overall price offered is fair and reasonable when certified cost or pricing data are required.

3.3.2.2. Cost analysis is the review and evaluation of any of the separate cost elements and profit or fee in an offeror's or a contractor's proposal as needed to determine a fair and reasonable price or to determine cost realism. It is also the application of judgment to determine how well the proposed costs represent what the cost of the contract should be assuming reasonable economy and efficiency. (FAR 15.404-1(c), Reference (g))

3.3.2.2.1. The proposal analysis shall include cost analysis to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required.

3.3.2.2.2. The proposal analysis may include cost analysis to evaluate data other than certified cost or pricing data to determine cost reasonableness and/or cost realism analysis when a fair and reasonable price cannot be determined through price analysis alone. Cost realism analysis is required on cost-reimbursement contracts.

3.3.3. Proposal Analysis Support. Proposal analysis support or assistance may come from functional areas within the supporting DCMA activity, from another DCMA activity, or from activities outside of DCMA (e.g., audit assistance from DCAA). The Assigned Individual shall ensure the functional areas receive all the documents necessary for the analysis (e.g., request for proposal, statement of work, work breakdown structure, proposal). The Assigned Individual shall lead functional specialists in the analysis, coordinate support from another DCMA activity or an outside activity, and establish the overall approach of the proposal analysis (FAR 15.404-2 (Reference (g)) and DFARS/PGI 215.404-2 (Reference (h))).

3.3.4. DCAA Audit Assistance. The Assigned Individual should consider requesting audit assistance from DCAA for fixed-price proposals exceeding \$10 million and cost-type proposals exceeding \$100 million. Audit assistance should not be requested for proposals under these dollar thresholds unless exceptional circumstances exist (DFARS/PGI 215.404-2(c), Reference (h)). Prior to requesting a DCAA audit, the Assigned Individual shall discuss the need for audit assistance and other pricing options with the Pricing Lead, CMO ICAT Director, and CMO Contracts Director, as appropriate.

3.3.4.1. DCAA decides to audit the prime contractor's proposal. The Assigned Individual shall coordinate with the prime contractor DCAA office in determining audit requirements and pricing risk of its subcontractors.

3.3.4.1.1. For subcontractor proposals the prime contractor DCAA office selects for audit, the request for a subcontractor audit must go through the prime contractor DCAA office to the subcontractor DCAA office. The prime contractor CMO (prime-CMO) may request subcontractor field pricing support from the subcontractor CMO (sub-CMO) in support of the subcontractor audit. If the prime-CMO requests sub-CMO support, the sub-CMO becomes the primary point of contact to the subcontractor DCAA office.

3.3.4.1.2. For subcontractor proposals the prime contractor DCAA office does not select for audit, but are selected by the DCMA customer for analysis, the prime-CMO shall coordinate with DCAA regarding the possibility for additional assistance and if that is not successful with the sub-CMO to arrange for subcontractor field pricing support.

3.3.4.2. DCAA decides not to audit the prime contractor's proposal. The Assigned Individual shall discuss field pricing support options with the pricing supervisor/Pricing Lead, CMO ICAT Director, and CMO Contracts Director as appropriate.

3.3.4.3. The receipt of a DCAA audit report does not constitute a complete proposal analysis and does not necessarily satisfy the field pricing support request from the customer or another DCMA activity. The audit report should aid the DCMA activity Assigned Individual in completing the requested field pricing support.

3.3.5. Subcontractor Pricing Considerations. The Assigned Individual should consider the need for subcontractor field pricing support (hereafter subcontractor support) from another DCMA activity to evaluate a subcontractor proposal at any tier if deemed necessary to ensure the reasonableness of the total proposed price. A request for subcontractor support may come to the prime contractor CMO (prime-CMO) from the prime contractor (also applicable to a higher-tier subcontractor) or from the customer. The subcontractor CMO (sub-CMO) shall not accept a request for subcontractor support directly from a prime contractor and shall inform the prime-CMO of the request from the prime contractor. It is permissible for a customer to submit a request for subcontractor support directly to the sub-CMO; however, the sub-CMO shall coordinate with the prime-CMO before accepting the request to ensure there is no duplication of effort.

3.3.5.1. Prime Contractor Requested Support. The prime contractor must submit a request for subcontractor support in writing to the prime-CMO. The request must include the subcontractor's proposal, documentation of the prime contractor's efforts to evaluate the subcontractor's proposal along with a copy of the letter or letters from the subcontractor denying access to some or all of its records. Upon receipt of the prime contractor's request and supporting documents, the Assigned Individual shall consider whether providing the requested support will serve a valid Government interest. The Assigned Individual shall provide the prime contractor with a written decision either accepting or denying the request.

3.3.5.2. Prime-CMO Requested Support. If the prime-CMO requests a subcontractor proposal review, the prime-CMO Assigned Individual must prepare a subcontractor support request package for the sub-CMO. A complete package includes a written description of the support required, a requested due date for the support, and an adequate subcontractor proposal. Upon receipt of the complete subcontractor support package, the sub-CMO shall perform the requested subcontractor support.

3.3.5.2.1. If the prime-CMO does not provide a complete package, the sub-CMO shall inform the prime-CMO of the missing information. If the prime-CMO does not provide the missing information, the sub-CMO may deny the request.

3.3.5.2.2. If the sub-CMO decides to deny the request due to an incomplete package or for another reason, the sub-CMO Contracts Director shall contact the prime-CMO Contracts Director to resolve the issue. If these Contracts Directors cannot resolve the issue, the prime-CMO Contracts Director should elevate the issue within the CMO. If still unresolved, the prime-CMO Contracts Director or higher-level management shall elevate the issue outside of the CMO. For CMOs within the same Directorate, Directorate management shall resolve the issue. For CMOs not within the same Directorate, the two Directorates shall attempt to resolve the issue. If still unsolved, the Executive Director, Contracts shall resolve the issue.

3.3.5.3. Upon completion of the subcontractor support, the sub-CMO shall prepare a cost and pricing analysis report documenting the proposal analysis as prescribed in section 3.4. If other than a proposal analysis, the sub-CMO may prepare a memorandum instead of a cost and pricing analysis report signed by the preparer and at least one level above the preparer. For a prime contractor request for support, the prime-CMO shall furnish the prime contractor, with the consent of the subcontractor, a summary of the analysis performed in determining any unacceptable costs included in the subcontract proposal. If the subcontractor withholds consent, the prime-CMO shall furnish a range of acceptable costs for each element in such a way as to prevent disclosure of subcontractor proprietary data. The cost and pricing analysis report may include a summary of analysis. (DFARS/PGI 215.404-3(a)(iii), Reference (h))

3.3.6. DFARS/PGI 215.404-1(a)(i)(A)-(F) (Reference (h)) provides steps to follow if the contractor does not provide sufficient data to complete the proposal analysis to determine fair and reasonable prices. DFARS 215.404-1(2) (Reference (k)) has additional proposal analysis requirements for the procurement of spare parts or support equipment.

3.3.7. Profit Analysis. The Assigned Individual shall comply with FAR 15.404-4 (Reference (g)) and DFARS 215.404-4 (Reference (k)) for the requirements and provide guidance for establishing the profit, or fee, portion of the Government's pre-negotiation objectives in negotiations based on cost analysis. Contracting officers shall use a structured approach for developing a pre-negotiation profit or fee objective on any negotiated contract action when cost or pricing data is obtained except for cost-plus-award-fee (DFARS 215.404-74, Reference (k)) or Federally Funded Research and Development Centers (DFARS 215.404-75, Reference (k)) contracts.

3.3.7.1. The three structured approaches used for developing a pre-negotiation profit or fee objective are the weighted guidelines method (DFARS and DFARS/PGI 215.404-71, References (k) and (h)), the modified weighted guidelines method (DFARS 215.404-72, Reference (k)), and an alternate structured approach (DFARS 215.404-73, Reference (k)). The weighted guidelines method is the most commonly used structured approach for profit analysis.

3.3.7.2. The Assigned Individual shall use the DD Form 1861, Contract Facilities Capital Cost of Money, to estimate facilities capital cost of money and capital employed when using the weighted guidelines method. It computes the contract facilities capital cost of money and capital employed carried forward to DD Form 1547, Record of Weighted guidelines Method Application (DFARS and DFARS/PGI 215.404-71-4, References (k) and (h)).

3.3.7.3. The Assigned Individual shall use the DD Form 1547 in accordance with DFARS and DFARS/PGI 215.404-70 (References (k) and (h)), whenever a structured approach to profit analysis is required.

3.3.7.4. Allowable Profit for an Undefined Contract Action (UCA). If the contractor has completed a substantial portion of the action prior to definitization, the profit allowed shall reflect any reduced cost risk for costs already incurred and for the performance of the remainder of the contract in the contractor type risk factor as mandated by DFARS 215.404-71-3(d)(2) (Reference (k)). The Assigned Individual shall document the risk assessment in the official file.

3.3.8. The Assigned Individual shall document the results of the proposal analysis in the PNOM or in a cost and pricing analysis report.

3.4. COST AND PRICING ANALYSIS REPORT.

3.4.1. The Assigned Individual shall prepare a cost and pricing analysis report to document the proposal analysis. The report shall address all the findings and recommendations from DCMA functional areas (e.g., technical analysis report) and non-DCMA activities (e.g., DCAA).

3.4.1.1. The cost and pricing analysis report shall clearly state the proposal analysis techniques used, adequately reference the supporting documents, and identify the requirement for or the prohibition on obtaining certified cost or pricing data (FAR 15.403 and 15.404 (Reference (g)), DFARS 215.403 and 215.404 (Reference (k)), and DFARS/PGI 215.403 and 215.404 (Reference (h))).

3.4.1.2. If the prime contractor receives subcontractor support, the sub-CMO shall prepare a complete cost and pricing analysis report with the written restrictions from the subcontractor concerning the release of its data to the prime contractor attached. The sub-CMO shall also prepare a second releasable report conforming to the written restrictions from the subcontractor for release to the prime contractor. The sub-CMO shall not provide the releasable report directly to the prime contractor unless specifically authorized by the prime-CMO. The prime-CMO shall ensure the releasable report prepared by the sub-CMO complies with the subcontractor's written restrictions.

3.4.1.3. The Assigned Individual shall use the “Cost and Pricing Analysis Report Template” available on the P&N Resource Page for preparing the report and may add sections to address specific circumstances as needed. If a section in the template does not apply to the analysis, briefly explain why it is not applicable in that section. If the customer requests a specific format, the Assigned Individual should make every effort to accommodate the customer. The Assigned Individual shall document in the case file with the customer’s rationale for requiring an alternate format. The cost and pricing analysis report must contain at least two signatures.

3.4.1.3.1. The Assigned Individual shall sign and date (physically or electronically) the cost and pricing analysis report and submit the report, along with the proposal-analysis case file, to the Pricing Lead for review and signature.

3.4.1.3.2. The Pricing Lead shall review the proposal-analysis case file, and sign and date (physically or electronically) the cost and pricing analysis report. Signing the report attests to the review of proposal-analysis case file. If the Pricing Lead, or a higher-level individual, prepares the report, the proposal-analysis case file review and the second signature on the cost and pricing analysis report must be at least one level above the preparer.

3.4.1.4. If the initial due date for revision is revised or the report is submitted after the due date, the individual responsible for the report shall document the reasons for revising or missing the due date in the official file. Revising the initial due date requires the approval at least one level above the Assigned Individual.

3.4.2. The Assigned Individual shall ensure all technical analysis reports, cost and pricing analysis reports, and other relevant documents containing Government or contractor proprietary data are marked and/or protected as required by law and regulation. Refer to DCMA-INST 552 (Reference (d)) for additional guidance.

3.4.2.1. Security classification based on contract security classification guidance should be reflected.

3.4.2.2. “Contractor bid or proposal information,” as defined in FAR 3.104-1, must be protected from unauthorized disclosure in accordance with FAR 3.104-4, FAR 14.401, and FAR 15.207 (Reference (g)). Contractor bid or proposal information includes, among other things, “proprietary information about manufacturing processes, operations, or techniques marked by the contractor in accordance with applicable law or regulation” (FAR 3.104-1 (Reference (g))). Information related to a sole source acquisition, or that was previously made available to the public or disclosed publicly, is not within the scope of contractor bid or proposal information (FAR 3.104-1 Reference (g)).

3.4.2.3. “Source Selection information,” as defined in FAR 2.101, must also be protected from unauthorized disclosure in accordance with FAR 3.104-4, FAR 14.401, and FAR 15.207 (Reference (g)). The analyst preparing or utilizing source selection information should be familiar with marking requirements at FAR 3.104-4(c) (Reference (g)) which specify that certain materials require a marking on each page, but other materials merely require “all reasonable

efforts” to affix the proper legend. Source selection information includes the following types of information, among others, that are used by an agency to evaluate a bid or proposal in a competitive acquisition: bid prices, proposed costs, source selection plans, technical evaluation plans, and cost or price evaluation of proposals (FAR 2.101 (Reference (g))). Information related to a sole source acquisition, or previously made available to the public or disclosed publicly, is not within the scope of source selection information (FAR 3.104-1 Reference (g)).

3.4.2.4. When disclosure to the public of a particular record, or portion thereof, would reasonably be expected to cause a foreseeable harm to an interest protected by one or more provisions of the Freedom of Information Act, a protective marking – “For Official Use Only” (FOUO) – should be applied to such record. Such protective marking should be applied to the title page, the first page, the outside of the back cover (if there is one) and each internal page of the pertinent documents and material, including information in electronic form (DoDM 5200.01-V4 (Reference (l))).

3.4.3. Sending the cost and pricing analysis report and any supporting documents to the customer normally completes the proposal analysis and closes the field pricing support case. The Assigned Individual must also close the field pricing support case in the P&N eTool. The Assigned Individual shall refer to the records management (section 3.6.) of this Instruction for storing the documents associated with the field pricing support case.

3.4.4. In the report, the Assigned Individual shall offer to assist the customer in the negotiation process. The Assigned Individual shall also contact the customer to obtain the results of the negotiation to compare with the recommendations and compare customer. The Assigned Individual shall document the attempts to obtain the results of the negotiations in the official file.

3.5. NEGOTIATION SUPPORT.

3.5.1. Negotiation support may include performing proposal analysis in addition to establishing pre-negotiation objectives, conducting the negotiation, documenting the negotiation, and executing the contract document action. The Assigned Individual shall refer to DCMA-INST 130, “Forward Pricing Rates,” (Reference (m)) for negotiating forward pricing rates.

3.5.2. The pre-negotiation objectives establish the Government’s initial negotiation position before conducting the negotiation and assist the Assigned Individual in determining a fair and reasonable price. The Assigned Individual shall determine the scope and depth of the analysis supporting the objectives based on the dollar value, importance, and complexity of the pricing action when establishing the pre-negotiation objectives. DFARS/PGI 215.406-1 (Reference (h)) provides additional guidance concerning pre-negotiation objectives and the disposition of findings and recommendations contained in audit and other advisory reports.

3.5.2.1. When cost analysis is required, the Assigned Individual shall document the issues for the negotiation, the cost objectives, and a profit or fee objective (FAR 15.406-1, Reference (k)). When establishing profit objectives for definitizing a UCA, the Assigned

Individual shall assess reduced contractor risk on both the contract before definitization and the remaining portion of the contract as prescribed at DFARS 215.404-71-3(d)(2) (Reference (k)).

3.5.2.2. Pre-Negotiation Objectives Memorandum (PNOM). The Assigned Individual shall document the pre-negotiation objectives in a PNOM and must consider the results of the cost and pricing analysis report or other reports provided. Refer to FAR 15.406-1 (Reference (g)) and DFARS 215.406-1 (Reference (k)) for pre-negotiation objectives requirements.

3.5.2.2.1. The Assigned Individual shall use the “Pre-Negotiation Objectives Memorandum (PNOM) Template” available the P&N Resource Page for preparing the PNOM and may add sections to address specific circumstances as needed. If a section of the template does not apply to the negotiation, briefly explain why in that section.

3.5.2.2.2. If the total pre-negotiation objectives amount does not exceed the simplified acquisition threshold (SAT) (SAT defined in FAR 2.101 (Reference (g))), the Assigned Individual may prepare a combined PNOM/PNM using the “Combined PNOM/PNM Template” available the P&N Resource Page instead of the “Pre-Negotiation Objectives Memorandum (PNOM) Template.”

3.5.2.2.3. The Assigned Individual and/or the ACO shall seek the appropriate levels of review and concurrence after the preparation of the PNOM and before proceeding with the negotiation. If the ACO decides to proceed after a review with a non-concurrence, the ACO shall document the rationale for proceeding with a non-concurrence in an amendment to the PNOM or in a separate memorandum for the official file.

3.5.3. Conduct Negotiation. The Assigned Individual should request the functional specialists involved with the analysis to attend the negotiation. If DCAA issued an audit report in support of the negotiations, the Assigned Individual shall invite the DCAA office to attend the negotiation.

3.5.3.1. The Assigned Individual must ensure all the Government attendees understand their roles in the negotiation process. If the ACO responsible for the negotiation does not attend, the Assigned Individual must inform the contractor that any understanding or agreement reached requires ACO approval with the appropriate levels of review and concurrence.

3.5.3.2. If during the negotiation the Assigned Individual believes the negotiated amount may exceed the Government objectives in the PNOM, the Assigned Individual shall stop negotiation and notify the ACO (if the ACO is not the Assigned Individual). The ACO and the Assigned Individual shall re-evaluate the established objectives, amend the PNOM accordingly, and seek the appropriate levels of review and concurrence before continuing the negotiation. If the Assigned Individual decides to proceed without the appropriate level of review and concurrence, the Assigned Individual shall document the rationale for not complying with this policy in the PNM or by a separate memorandum for the official file.

3.5.3.3. When certified cost or pricing data are required, the Assigned Individual shall require the contractor to execute a Certificate of Current Cost or Pricing Data using the format in FAR 15.406-2 (Reference (g)).

3.5.4. Price Negotiation Memorandum (PNM). The Assigned Individual shall document the results of the negotiation in a PNM. FAR 15.406-3 (Reference (g)) and DFARS and DFARS/PGI 215.406-3 (References (k) and (h)) provide the required information for a PNM.

3.5.4.1. The Assigned Individual shall use the “Price Negotiation Memorandum (PNM) Template” available the P&N Resource Page for preparing the PNM and may add sections to address specific circumstances as needed. If a section of the template does not apply to the negotiation, briefly explain why in that section.

3.5.4.2. If the total negotiation amount does not exceed the SAT (SAT defined in FAR 2.101 (Reference (g))), the Assigned Individual may prepare a combined PNOM/PNM using the “Combined PNOM/PNM Template” available the P&N Resource Page instead of “Price Negotiation Memorandum (PNM) Template.”

3.5.4.3. The Assigned Individual shall clearly state in the PNM how the negotiated price was determined fair and reasonable. If the total negotiated price exceeds the total pre-negotiation objective, the PNM shall include sufficient rationale for determining the price fair and reasonable.

3.5.4.4. The Assigned Individual and/or the ACO shall seek the appropriate levels of review and concurrence after the preparation of the PNM before proceeding with the next action. If the ACO decides to proceed after a review with a non-concurrence, the ACO shall document the rationale for proceeding with a non-concurrence in a separate memorandum for the official file.

3.5.5. Levels of Review and Concurrence. The dollar value of the action normally dictates the level of review and concurrence for a PNOM, PNM, Combined PNOM/PNM, or DCMA Boards of Review (BoR) (DCMA-INST 134, Reference (n)). Signing the PNM indicates review and concurrence. The Assigned Individual and the ACO shall sign and date (physically or electronically) the PNM regardless of the dollar value and the template used. If the ACO is the Assigned Individual, an additional level of review and concurrence above the ACO is required. The DCMA activity may establish a higher level of review and concurrence than identified below.

3.5.5.1. If the dollar value does not exceed the SAT, the ACO is the final review and concurrence level for the PNOM and PNM, or the Combined PNOM/PNM. The Assigned Individual may use the “Combined PNOM/PNM Template” if both the pre-negotiation objective and the negotiated amounts do not exceed the SAT. If the final negotiated amount exceeds the SAT, the Assigned Individual shall not use “Combined PNOM/PNM Template” to document the negotiation and must comply with the requirements for a negotiation exceeding the SAT.

3.5.5.2. If the dollar value exceeds SAT but does not exceed the threshold for obtaining certified cost or pricing data, the review and concurrence level for a PNOM or PNM is at least one level above the ACO.

3.5.5.3. If the dollar value exceeds the threshold for obtaining certified cost or pricing data, the review and concurrence level for a PNOM or PNM is the CMO Contracts Director even if an exception to obtaining certified cost or pricing data applies. If the PNOM required this level of review and concurrence, the same level also applies to the PNM even if the negotiated amount is below the threshold for obtaining certified cost or pricing data.

3.5.5.4. The Assigned Individual shall refer to DCMA-INST 134 (Reference (n)) for any BoR requirements.

3.5.6. If the negotiation support requested requires the ACO to execute the contract action, the ACO shall obtain the appropriate levels of review and concurrence for the PNM before executing the contract action. If the ACO proceeds without concurrence, the ACO shall document the rationale for not complying with this Instruction in the PNM.

3.5.7. The Assigned Individual shall provide a copy of the PNM (or Combined PNOM/PNM) to the customer and all individuals or offices that provided assistance or support (e.g., DCAA, cost/price analyst, functional specialists, or other DCMA activities). The Assigned Individual shall also offer to provide the customer with documents supporting the negotiation.

3.5.8. The Assigned Individual shall refer to the records management section of this Instruction for storing the documents associated with the negotiating support case.

3.6. RECORDS MANAGEMENT.

3.6.1. DCMA-INST 809, "Records Management" (Reference (o)) provides an orderly system for organizing records for filing and eventual disposition. The responsibility for documentation of transactions that occur during a work process rests with the office executing that process.

3.6.2. Upon closing a pricing or negotiation case, store the work product (PNOM, PNM, cost and pricing analysis report, supporting documents, spreadsheets that are background to the report, all materials relied upon by the analyst in support of the negotiations) using a naming convention of contract and proposal that will allow for its logical retrieval.

3.6.3. If documents relating to a case are too large to upload electronically, the uploaded location will cite a specific location where the hard copy documents/disk will be stored. It will be a location sanctioned by the component for the retention of records conforming to DCMA policy on retention of records. Electronic Data Workflow (EDW) or an Agency directed replacement is the preferred location. If EDW is not available for the component, pricing products will be stored in a location directed by the component Commander/Director as the official location for record retention conforming to DCMA policy on retention of records.

GLOSSARY

ACRONYMS

ACO	administrative contracting officer
BoR	Boards of Review
CMO	Contract Management Office
CLIN	contract line item number
CUI	controlled unclassified information
DCAA	Defense Contract Audit Agency
DCMA-ANX	DCMA Annex
DCMA-INST	DCMA Instruction
DFARS	Defense Federal Acquisition Regulation Supplement
DFARS/PGI	DFARS Procedures, Guidance, and Information
EDW	Electronic Data Workflow
ELIN	exhibit line item number
FAR	Federal Acquisition Regulation
FOUO	For Official Use Only
ICAT	integrated cost analysis team
OCONUS	Outside the Continental United States
P&N	pricing and negotiation
PLAS	Performance Labor Accounting System
PNOM	pre-negotiation objectives memorandum
PNM	price negotiation memorandum
SAT	simplified acquisition threshold
SLIN	sub-line item number
UCA	undefinitized contract action