



## **DCMA Instruction 2201**

### **Indirect Cost Control**

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**Office of Primary  
Responsibility**

**Indirect Cost Control Capability**

**Effective:**

October 2, 2018

**Releasability:**

Cleared for public release

**New Issuance**

**Incorporates:**

DCMA-INST 107, "Contractor Insurance/Pension Review,"  
March 6, 2014  
DCMA-INST 108, "Cost Accounting Standards (CAS)  
Administration," May 20, 2013  
DCMA-INST 123, "Cost Monitoring," May 23, 2016  
DCMA-INST 125, "Final Overhead Rates," November 8, 2016  
DCMA-INST 126, "Contract Audit Follow-Up,"  
February 11, 2016  
DCMA-INST 128, "Disallowance of Costs," December 4, 2013  
DCMA-INST 130, "Forward Pricing Rates," July 21, 2014  
DCMA-INST 134, "Boards of Review," October 15, 2012  
DCMA-ANX 213-02, "Technical Support to Indirect Costs,"  
February 21, 2017

**Internal Control:**

Not Applicable

**Labor Codes:**

Located on the Resource Page

**Resource Page Link:** <https://360.dcma.mil/sites/policy/IC/SitePages/2201r.aspx>

**Approved by:** David H. Lewis, VADM, USN, Director

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**Purpose:** This issuance, in accordance with the authority in DoD Directive 5105.64:

- Establishes policy, assigns responsibilities, and provides procedures concerning DCMA's Indirect Cost Control (ICC) Capability in the resolution of questioned indirect costs.
- Provides direction in fulfilling Agency responsibilities pursuant to Federal Acquisition Regulation (FAR) requirements identified in, Defense Federal Acquisition Regulation Supplement (DFARS), and DoD Grants and Agreements Regulations, Part 22 of Title 32, Code of Federal Regulations (CFR), as they pertain to indirect cost rate settlements and resolution of issues concerning cost controls on contracts.
- Establishes a series of supplementing ICC Capability procedural DCMA Manuals (DCMA-MAN 2201-XX series) prescribing detailed responsibilities and procedures for carrying out the ICC processes.

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## **SECTION 1: GENERAL ISSUANCE INFORMATION**

**1.1. APPLICABILITY.** This Instruction applies to all DCMA organizational elements performing contract administration services (CAS) for the DoD, other authorized Federal agencies, foreign governments, international organizations, and others as authorized. This Instruction covers performance of reimbursable and non-reimbursable CAS by DCMA.

**1.2. POLICY.** It is DCMA policy to:

- a. Evaluate, make determinations, and report on the effectiveness of the contractor's policies, procedures, and practices used in controlling direct and indirect costs.
- b. Monitor and ensure the contractor's effective management of contract costs. Execute this instruction in a safe, efficient, effective and ethical manner.

## SECTION 2: RESPONSIBILITIES

**2.1. DIRECTOR, DCMA.** The DCMA Director will:

- a. Provide strategic oversight of the ICC Capability.
- b. Approve ICC Capability policy issuances and any changes to such policy issuances.
- c. Appoint a Capability Manager(s) for the ICC Capability and charter a supporting cross-functional capability board.

**2.2. ICC CAPABILITY MANAGER.** The ICC Capability Manager will:

- a. Serve as chairperson of the ICC Capability Board as chartered.
- b. Serve as the Agency proponent for the ICC Capability.
- c. Develop, revise, coordinate, and maintain the ICC Capability Manuals (i.e., DCMA Manual (DCMA-MAN)) necessary to document the processes and procedures.
- d. Identify and develop metrics to monitor ICC compliance, performance and value to DCMA mission.
- e. Establish processes for continuous improvement of the ICC Capability.
- f. Support and coordinate delivery of products with all Agency Business Capabilities Framework teams.
- g. Assign an ICC Capability Action Officer(s) to serve as the subject matter expert (SME) and primary focal point for ICC issuances and associated resource pages.
- h. Serve as the deciding official for determining where contractor oversight is determined for those contractors with multiple segments but not belonging to the Cost and Pricing Center.

**2.3. COMPONENT HEADS.** The Component Heads will:

- a. Ensure their assigned areas of operation carry out the applicable ICC Capability processes as published in the DCMA-MAN 2201 series of manuals.
- b. Evaluate agency operational compliance and performance related to the ICC Capability.

**2.4. CONTRACT MANAGEMENT OFFICE COMMANDERS/DIRECTORS, AND CENTER DIRECTORS.** The Commanders/Directors and Center Directors will:

- a. Execute and oversee their organizations' ICC Capability processes as published in the DCMA-MAN 2201 series of manuals.

- b. Establish a Detection-to-Prevention culture to achieve the ICC Capability.
- c. Evaluate organizational ICC Capability compliance and performance.

## SECTION 3: GENERAL PROVISIONS

**3.1. DESCRIPTION.** Indirect costs are costs that cannot be directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. Indirect costs should be allocated on a causal/beneficial basis across all of the organization's business activities according to the benefits each activity gains. To the extent that indirect costs are reasonable, allowable and allocable, they are a legitimate cost of doing business payable under a U.S. Government contract or grant. DCMA's Divisional Administrative Contracting Officers (DACO), Corporate Administrative Contracting Officers (CACO) and Administrative Contracting Officers (ACO) negotiate indirect rates to be used for contract pricing and final contract costs. Some examples of indirect costs are pension and insurance costs, independent research and development (IR&D) efforts, office space rental, utilities, depreciation of buildings/equipment, and clerical, supervisory, and managerial staff salaries. The technical specialists support ICC through their system and process level reviews on those areas that affect the indirect cost pools. The technical community provides information to the DACO/CACO/ACO and Cost Monitor (where applicable) pertaining to efficiencies realized by the contractor as a result of process changes, technology improvements, or other cost reduction initiatives. This information should be used as inputs to the establishment of forward pricing rates and settlement of final direct and indirect cost rates. The value DCMA expects to deliver through this capability will:

- a. Provide the acquisition community with comprehensive insight into the factors that influence a contractor's indirect costs/rates.
- b. Ensure rates and factors used for forward pricing and settlement of final contract costs are reasonable, allocable, and allowable in accordance with regulatory requirements and public law.
- c. Promote negotiation of fair and reasonable Forward Pricing Rate Agreements (FPRAs), or establish Forward Pricing Rate Recommendations (FPRRs) or DCMA evaluated or recommended rates where FPRAs cannot be agreed to, that can be used to streamline acquisition timelines.
- d. Ensure that affected contractors adhere to Cost Accounting Standards on applicable contracts, as they pertain to proper contract cost allocations.
- e. Ensure that audit findings and recommendations contained in contract audit reports are resolved and dispositioned in a timely manner consistent with legal statutes, regulations, and DoD policy.
- f. Coordinate and enhance communication for multi-segment organizations among Contract Management Offices (CMOs) and/or CACO/DACO Offices as needed to ensure capability success.

**3.2. ACTIVITIES.** Agency activities associated with the ICC capability include, as published in DCMA-MAN 2201 series of manuals:

- a. Establishing FPRRs and FPRA for proposed direct and indirect rates and costs. This includes procedures for FPRR/FPRA, cost monitoring, should-cost reviews, technical support to indirect costs (TSI), and contractor insurance/pension reviews (CIPR).
- b. Establishing final direct and indirect cost rates and billing rates. This includes procedures for settlement of final indirect costs rates and disallowance of certain types of budgeted, billed or claimed costs.
- c. Administering Cost Accounting Standards.
- d. Administering Contract Audit Follow-Up.
- e. Conducting Boards of Review.

**3.3. PRODUCTS.** Major products associated with the Indirect Cost Control capability will reside in CBAR, per DFARS PGI 215.406-3(a)(11) and include (examples/templates located on the capability resource webpage):

- a. Forward Pricing Rate Agreements.
- b. Forward Pricing Rate Recommendations.
- c. Final Indirect Cost Rate Agreements.
- d. Interim Billing Rates.
- e. Should Cost Reports.
- f. Cost Monitoring Reports and Plans.
- g. CIPR Reports.
- h. Adequacy and Compliance Determinations for Cost Accounting Standards and Business Systems.
- i. Contracting Officer Final Decisions.
- j. Notifications to Disallow Indirect Costs.
- k. TSI Reports.

## GLOSSARY

### G.1. DEFINITIONS.

**Action Officer.** A DCMA employee who serves as the SME and primary focal point for an issuance and associated resource webpage. The Action Officer is responsible for developing, revising, maintaining, and canceling the DCMA issuance throughout its lifecycle, and preserving the related background material used in the development and preparation of policy issuances in accordance with the DCMA records management guidance. The Action Officer executes projects and tasks such as leading issuance development efforts, reviewing and updating existing issuances, maintaining resource pages, and soliciting input for issuance improvements.

**Business Capabilities Framework.** A structure that distinguishes a policy's what and why from the processes how to, and integrates automation in an agile business environment.

**Boards of Review.** A level of management review although only advisory in nature to support an Administrative Contracting Officer's requirement to obtain appropriate management review of contracting actions before negotiating or taking any action to settle an issue.

**Capability.** The ability to achieve a desired effect under specified standards and conditions through a combination of methods across doctrine, organization, training, material, leadership, education, personnel, and facilities to perform a set of tasks to execute a specified course of action.

**Capability Manager.** The individual or individuals identified by the Director, DCMA, as the proponent with advocacy for all Agency efforts under a given Capability. The Capability Manager is responsible for the doctrine (instructions and manuals), tools, and training associated with the process and activities that fall under the purview of the Capability.

**Component Heads.** The leader of a DCMA component who reports directly to the Office of Director, DCMA.

**Contract.** A mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts exclude grants, cooperative agreements, and other transactions.

**Contract Administration Service.** All post award actions accomplished for the benefit of the Government, which are necessary to the performance of a contract or in support of the buying offices, system/project managers, and other organizations. It includes quality assurance, engineering support, production surveillance, preaward surveys, mobilization planning, contract administration, property administration, industrial security, contract payments and safety.

**Contract Management Office (CMO).** An organizational unit within DCMA that is assigned post award functions related to the administration of contracts. The office is responsible for managing and administering assigned contracts from contract receipt to contract closeout.

**Forward Pricing Rate Agreement.** A written agreement negotiated between a contractor and the Government to make certain rates available during a specified period for use in pricing contracts or modifications. These rates represent reasonable projections of specific costs that are not easily estimated for, identified with, or generated by a specific contract, contract end item, or task. These projections may include rates for such things as labor, indirect costs, material obsolescence and usage, spare part provisioning, and material handling.

**Forward Pricing Rate Recommendation.** A rate set unilaterally by the administrative contracting officer for use by the Government in negotiations or other contract actions when forward pricing rate agreement negotiations have not been completed or when the contractor will not agree to a forward pricing rate agreement.

**Detection to Prevention.** A culture that transitions DCMA acquisition oversight activities from detection to prevention and applies to all DCMA business capabilities. Detection to Prevention is a proactive surveillance and management strategy that focuses on process capability, risk assessment and mitigation, verification of contractors' systems, processes, outputs, and data-driven actionable information.

## GLOSSARY

### G.2. ACRONYMS.

ACO	Administrative Contracting Officer
CACO	Corporate Administrative Contracting Officer
CIPR	Contractor Insurance/Pension Review
CMO	Contract Management Office
DACO	Divisional Administrative Contracting Officer
DCMA-ANX	DCMA Annex
DCMA-INST	DCMA Instruction
DCMA-MAN	DCMA Manual
DFARS/PGI	Defense Federal Acquisition Regulation Supplement and Procedures, Guidance, and Information
FAR	Federal Acquisition Regulation
FPRA	Forward Pricing Rate Agreement
FPRR	Forward Pricing Rate Recommendation
ICC	Indirect Cost Control Capability
IR&D	Independent Research and Development
SME	Subject Matter Expert
TSI	Technical Support to Indirect Costs

## REFERENCES

- Code of Federal Regulation Title 32, Part 22.715, “DoD Grant and Agreement Regulations”
- DoD Directive 5105.64, “Defense Contract Management Agency (DCMA),” January 10, 2013
- Federal Acquisition Regulation Subpart 31.1, “Contract Cost Principles and Procedures, Applicability,” September 3, 2015
- Federal Acquisition Regulation Subpart 31.2, “Contract Cost Principles and Procedures, Contracts With Commercial Organizations,” September 3, 2015
- Federal Acquisition Regulation Subpart 42.2, “Contract Administration Services,” October 1, 2015
- Federal Acquisition Regulation Subpart 42.3, “Contract Administration Office Functions,” October 1, 2015
- Federal Acquisition Regulation Subpart 42.7, “Contract Administration and Audit Services, Indirect Cost Rates,” October 1, 2015
- Federal Acquisition Regulation Subpart 52.2, “Solicitation Provisions and Contract Clauses, Text of Provisions and Clauses,” April 6, 2016
- Defense Federal Acquisition Regulation Supplement Subpart 242.302, “Contract administration functions,” June 26, 2015
- Defense Federal Acquisition Regulation Supplement Subpart 242.73, “Contract Insurance/Pension Review,” December 28, 2017
- Defense Federal Acquisition Regulation Supplement and Procedures, Guidance, and Information (PGI) 242.302(a)(S-75), “Monitoring Contractor Costs,” December 30, 2015