



**DEPARTMENT OF DEFENSE**  
**Defense Contract Management Agency**

**INSTRUCTION**

**Pricing and Negotiation – Contracts**

**Contracts Directorate**  
**OPR: DCMA-AQ**

**DCMA-INST 120**  
**July 31, 2012**

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**1. PURPOSE.** This Instruction:

- a. Updates the Agency policy and assigns roles and responsibilities for contract pricing and negotiation (Reference (a)).
- b. Implements Government policy pursuant to the references on page 3.
- c. Is established in compliance with DoD Directive 5105.64 (Reference (b)).

**2. APPLICABILITY.** This Instruction applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence (e.g., International (DCMAI) and Special Programs (DCMAS) activities).

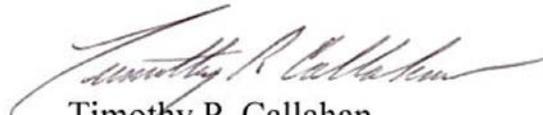
**3. MANAGERS' INTERNAL CONTROL SYSTEM.** This Instruction contains managers' internal control provisions that are subject to evaluation and testing as required by DCMA Instruction, Managers' Internal Control Program (Reference (c)). The process flowchart is located at Appendix A.

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

**5. PLAS CODE.** 041 – Pricing and Negotiation

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

**7. EFFECTIVE DATE.** By order of the Director, DCMA, this Instruction is effective immediately.

  
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## REFERENCES

- (a) DCMA Instruction, "Pricing and Negotiation – Contracts," July 2010 (hereby canceled)
- (b) DoD Directive 5105.64, "Defense Contract Management Agency," September 27, 2000
- (c) DCMA Instruction, "Managers' Internal Control Program," September 12, 2011
- (d) DCMA Instruction, "Contract Management Boards of Review," February 2012
- (e) DCMA Instruction, "Records Management," May 2011
- (f) Federal Acquisition Regulation (FAR)
- (g) Defense Federal Acquisition Regulation Supplement (DFARS)
- (h) DFARS Procedures, Guidance, and Information (PGI)

## **CHAPTER 1**

### **POLICY**

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

1.1.1. Provide quality and timely pricing and negotiation support to the DoD, other Federal agencies and departments, and activities within DCMA in order to negotiate fair and reasonable contract prices.

1.1.2. Promptly acknowledge receipt of pricing and negotiation support requests.

1.1.3. Promptly conduct a preliminary review of a proposal to determine its adequacy and completeness.

1.1.4. Schedule and complete all pricing and negotiation support requests in order to minimize delay to procurement or post-award actions.

1.1.5. Negotiate fair and reasonable prices and properly document the negotiation process.

## CHAPTER 2

### RESPONSIBILITIES

**2.1. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR AND COST AND PRICING CENTER DIRECTOR.** The CMO commander/director and Cost and Pricing Center director shall ensure compliance with this instruction.

**2.2. CMO CONTRACTS DIRECTOR/CORPORATE OR DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER (ACO) GROUP SUPERVISOR.** The CMO contracts director/corporate or divisional ACO group supervisor shall:

2.2.1. Ensure the appropriate reviews and approvals are obtained for the pre-negotiation objectives memorandum (PNOM).

2.2.2. Ensure the appropriate reviews and approvals are obtained for the price negotiation memorandum (PNM).

**2.3. ADMINISTRATIVE CONTRACTING OFFICER (ACO).** The ACO reference includes divisional ACO (DACO) and corporate ACO (CACO). The ACO shall:

2.3.1. Promptly acknowledge pricing support requests. Acknowledgement may be delegated to the assigned cost/price analyst.

2.3.2. Review the contractor's proposal to determine its adequacy.

2.3.3. Ask the prime contract auditor if pricing risk justifies an assist audit of a subcontract and decide if such assistance is necessary to ensure the reasonableness of the total proposed price.

2.3.4. Establish a deadline for completing the cost and pricing analysis and forward the request for support to the cost/price analyst.

2.3.5. Sign the PNOM and obtain the appropriate levels of approval prior to negotiations.

2.3.6. Sign the PNM to document the negotiations and obtain the appropriate levels of approval prior to executing the negotiated contract action.

2.3.7. Ensure the cost and pricing analysis report is sent to the customer.

2.3.8. Ensure assigned pricing and negotiation support requests have been entered into the Pricing and Negotiation (P&N) eTool and updated as changes in status occur.

2.3.9. Promptly notify the Director of Proposal Pricing in the Cost and Pricing Center that an assigned contractor is expected to submit a major proposal (greater than \$250 million) and provide the Director with information about the proposal, customer, expected dollar value,

submission date, and whether the procurement is competitive or sole source. (Applicable to ACOs at a CMO without an integrated cost analysis team (ICAT)).

**2.4. COST/PRICE ANALYST.** The cost/price analyst shall:

2.4.1. Enter the pricing support request into the P&N eTool.

2.4.2. Request needed support from functional areas within the DCMA activity and Defense Contract Audit Agency (DCAA).

2.4.3. Maintain work papers to support the cost and pricing analysis report.

2.4.4. Prepare and sign a well-documented cost and pricing analysis report that incorporates the findings and recommendations of the functional specialists and any DCAA audits.

2.4.5. Update the pricing support request information and, upon completion, close the case in the P&N eTool.

2.4.6. Ensure all pricing support request documents are entered into the Electronic Document Workflow (EDW) eTool after completing the case.

**2.5. PRICING CHIEF (OR EQUIVALENT).** The pricing chief (or equivalent) shall:

2.5.1. Review and sign all work papers documenting the cost and pricing analysis.

2.5.2. Review and sign all cost and pricing analysis reports before being sent to the customer.

**2.6. NEGOTIATOR.** The DCMA negotiator shall:

2.6.1. Invite the cognizant DCAA auditor to attend the negotiations if an audit was completed in support of the proposal analysis.

2.6.2. Consider the cost and pricing analysis report and supporting documentation, and any applicable DCAA audit, when establishing the pre-negotiation objectives.

**2.7. INTEGRATED COST ANALYSIS TEAM (ICAT) DIRECTOR.** The ICAT director shall:

2.7.1. Ensure ICAT proactively understands the contractor's business systems so that the ICAT provides quality proposal pricing products to customers.

2.7.2. Use enhanced team size to work closely with customers and DCAA as a single Government team to minimize workload redundancy and analysis costs.

2.7.3. Coordinate as needed with other CMOs who work with the same contractor entity at other locations to assemble a pricing team. The pricing team will provide a comprehensive analysis of the contractor's proposal and business conditions affecting the instant proposal.

2.7.4. Ensure ICAT work products emphasize greater focus on subcontractor management in both the technical and business segments (vendor cost analysis, make/buy analysis, commerciality, and competition vs. sole source analysis).

**2.8. DIRECTOR OF PROPOSAL PRICING, COST AND PRICING CENTER.** The Director of Proposal Pricing, Cost and Pricing Center shall:

2.8.1. Serve as the primary initial link to coordinate major proposal support with CMOs on major proposals (defined as greater than \$250 million) at non-ICAT locations.

2.8.2. Coordinate augmentation of CMO resources with 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), Engineering and Analysis (E&A), or the Director of Technical Pricing.

2.8.3. Coordinate with Cost and Pricing Center hub sites and Operations managers to assemble a list of capable business resources who can quickly be deployed to evaluate major proposals.

2.8.4. Work with the Director of Technical Pricing to assemble a list of capable technical resources.

2.8.5. Work with the 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. DIRECTOR OF TECHNICAL PRICING, COST AND PRICING CENTER.** The director of technical pricing, Cost and Pricing Center shall:

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

2.9.2. Coordinate with E&A and Operations managers in assembling a list of capable technical resources who can quickly be deployed to evaluate major proposals.

2.9.3. Work with E&A, Operations, and technical resources assigned to the Cost and Pricing Center to identify training needs for technical pricing.

**2.10. DIRECTOR, COST AND PRICING CENTER.** The Director, Cost and Pricing Center shall:

2.10.1. Meet regularly with DCMA customers (i.e., high-level personnel involved in acquisitions) to gain intelligence on incoming proposals greater than \$250 million that will impact non-ICAT locations.

2.10.2. Coordinate with customers as necessary to ensure required level of support is provided on major proposals at non-ICAT locations.

2.10.3. Direct the work of the Director of Proposal Pricing, the Director of Technical Pricing of the Cost and Pricing Center, and the Cost and Pricing Center Hub Sites.

2.10.4. Ensure the Director of Proposal Pricing and Director of Technical Pricing of the Cost and Pricing Center carry out their responsibilities.

2.10.5. Establish a proactive forecasting strategy to identify all potential proposals that will require DCMA pricing assistance from the DCMA Cost and Pricing Center.

**2.11. COST AND PRICING CENTER HUB SITES.** The Cost and Pricing Center hub site assigned to work with the non-ICAT CMO that receives a major proposal (greater than \$250 million) shall:

2.11.1. Once directed by the Director of Proposal Pricing, work with the non-ICAT CMO (and customer as necessary) to ensure business resources provide the augmentation necessary to support major proposal reviews.

2.11.2. Work with the non-ICAT CMO (and customers as necessary) to determine the appropriate role for the business personnel augmenting the non-ICAT CMO. When necessary, provide a resource to lead the pricing effort.

## CHAPTER 3 PROCEDURES

### 3.1. RECEIVE PRICING SUPPORT AND NEGOTIATION SUPPORT REQUESTS.

3.1.1. Pricing and negotiation support requests may be received by DCMA through the DCMA Pricing and Negotiation (P&N) eTool or by means (e.g., email, letter).

3.1.1.1. If the DCMA activity receiving a request determines that the customer is not interested in any DCMA services beyond coordinating and providing the audit, then the receiving activity should remind the customer of FAR 15.404-2(c)(1) which states that the “contracting officer should contact the cognizant audit office directly, particularly when an audit is the only field pricing support required.” This Instruction does not apply to audit only field pricing support.

3.1.1.2. Request Received Through the P&N eTool. If the DCMA activity receiving a request is not the supporting DCMA activity, it shall identify the supporting DCMA activity and reassign the request through the P&N eTool.

3.1.1.3. Request Received by Means Other Than Through the P&N eTool.

3.1.1.3.1. If the receiving DCMA activity will support the request, it shall be entered into the P&N eTool. If the request is not entered into the P&N eTool, the rationale shall be documented in the official file.

3.1.1.3.2. If the receiving DCMA activity is not the supporting DCMA activity, it shall identify the supporting DCMA activity and reassign the request. The request may be reassigned by forwarding it without entering it into the P&N eTool or by entering it into the P&N eTool and reassigning it.

3.1.1.4. Pricing Support Request on Major Proposals.

3.1.1.4.1. If the request for pricing support is on a proposal that exceeds \$250 million and the cognizant CMO is at a location which does not have an ICAT, then the request shall be referred to the Director of Proposal Pricing in the DCMA Cost and Pricing Center for customer coordination and establishment of an evaluation approach. To augment the non-ICAT CMO pricing team, the Director of Proposal Pricing shall coordinate with the Director of Technical Pricing to obtain the necessary technical resources and with the Cost and Pricing Center hub sites and Operations managers to obtain the necessary business resources. After coordination with the Director of Proposal Pricing and formation of the augmented pricing team, the request shall be released to the cognizant CMO for further action.

3.1.1.4.2. CMOs with ICATs are not required to coordinate major proposals with the Director of Proposal Pricing. However, the ICAT director may solicit assistance from the Director of Proposal Pricing of the Cost and Pricing Center if pricing assistance is needed. ICAT

directors 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. Pricing resources at other CMOs will support the ICAT director through teaming efforts.

3.1.2. Pricing and Negotiation Support Cases. The supporting DCMA activity shall discuss and establish a completion date with the customer prior to acknowledging the request. If an agreed-upon completion date cannot be established, the request for support may be canceled. The acknowledgement to the customer may be documented through the P&N eTool or by other means. The ACO or assigned individual (e.g., cost/price analyst) shall acknowledge all pricing and negotiation support requests by accepting or canceling them. Accepting the request creates a Pricing Support Case or a Negotiation Support Case.

3.1.2.1. The ACO shall determine if a proposal and other documents are required to provide the requested support. If so, the ACO shall obtain the required documents prior to accepting the request. The ACO may accept the request without receiving the required documents, but shall negotiate a receipt date with the customer. Upon receipt of a proposal, the ACO shall perform a proposal review (see paragraph 3.2) to determine its adequacy and completeness. If the required proposal and other needed documents are not received, the ACO shall elevate the issue within their DCMA activity, their directorate, and, if necessary, to DCMA Contracts Directorate (DCMA-AQ) for action. If the required proposal and other documents are still not provided, the request (or case, if previously accepted) shall be canceled.

3.1.2.2. A pricing support case involves evaluating proposed prices to determine price reasonableness. The evaluation may include some or all of the proposed cost elements and profit. Pricing support may involve submitting a support request to another DCMA activity (e.g., subcontractor proposal analysis) or to an external customer (e.g., procurement contracting officer).

3.1.2.3. A negotiation support case may involve some or all of the entire negotiation process. The negotiation process begins with proposal analysis, documenting pre-negotiation objectives, conducting and documenting the negotiations, and executing the contract action. Negotiation support may require pricing or negotiation assistance from another DCMA activity.

3.1.2.4. Maintain current status of pricing and negotiation support cases in the P&N eTool. A completed case is not considered closed until it is closed in the P&N eTool.

## **3.2. PERFORM PROPOSAL REVIEW FOR ADEQUACY AND COMPLETENESS.**

3.2.1. In determining adequacy of the contractor's proposal, the ACO will consult with the cost/price analyst and the auditor (if an audit is required). The "DCMA Proposal Adequacy Checklist" (see Resource Page) can be used in determining proposal adequacy.

3.2.1.1. If the proposal is determined adequate, the proposal analysis process begins. An adequate proposal may be required prior to accepting a pricing support request or after accepting a request (e.g., qualifying proposal for undefinitized contract action (UCA) definitization).

3.2.1.2. If the proposal is inadequate, the ACO shall take necessary actions to obtain an adequate proposal, including contacting the procuring activity or the contractor to discuss the deficiencies. FAR 15.404-2(d) provides other actions the ACO may take if the contractor does not provide sufficient data. Refer to paragraph 3.1.2.1 if an adequate proposal cannot be obtained.

3.2.2. Special Consideration. The cost/price analyst (or the ACO) shall hold prime contractors accountable for submission of cost or pricing data for subcontract proposals above the threshold(s) specified in FAR 15.404-3(c). The cost/price analyst (or the ACO) must also ensure that subcontract prices are fair and reasonable, and work with cognizant DCMA and DCAA offices to ensure that any required support reviews or audits are adequately resourced and successfully completed to support the contracting officer's determination of reasonableness for the prime contract, including subcontracting costs.

### **3.3. CONDUCT 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. Certified cost or pricing data requirements shall be considered in the proposal analysis process.

3.3.2. Proposal analysis techniques are described in FAR 15.404-1.

3.3.2.1. Perform price analysis when evaluating a proposed price without evaluating its separate cost elements and proposed profit. FAR 15.404-1(b)(2) lists various types of price analysis techniques that may be used in determining price reasonableness.

3.3.2.1.1. Price analysis shall be used if certified cost or pricing data are not required. Even if certified cost or pricing data are required, price analysis should be part of the proposal analysis to verify that the overall price offered is fair and reasonable.

3.3.2.1.2. DFARS/PGI 215.404-1(b) provides additional guidance on performing price analysis.

3.3.2.2. Perform cost analysis when evaluating the separate cost elements and profit or fee in an offeror's proposal to determine a fair and reasonable price or to determine cost realism. FAR 15.404-1(c) lists various cost analysis techniques that may be used in determining a fair and reasonable price.

3.3.2.2.1. Cost analysis shall be used to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required.

3.3.2.2.2. Cost analysis may also be used to evaluate data other than certified cost or pricing data to determine cost reasonableness or cost realism when a fair and reasonable price cannot be determined through price analysis alone.

3.3.2.3. FAR 15.404-1(d) defines cost realism analysis and states when it shall be performed and when it may be used. Cost realism is the process of independently reviewing and evaluating specific elements of each offeror's proposed cost estimate to determine whether the estimated proposed cost elements are realistic for the work to be performed; reflect a clear understanding of the requirements; and are consistent with the unique methods of performance and materials described in the offeror's technical proposal.

3.3.2.4. The ACO or the cost/price analyst shall assess the need for additional proposal analysis support, such as technical reviews or audit assistance for subcontracts. Proposal analysis support may come from functional areas within the supporting DCMA activity, another DCMA activity, or activities outside of DCMA (e.g., DCAA). The ACO shall ensure the functional areas receive all the documents necessary to assist in the analysis (e.g., request for proposal, statement of work, work breakdown structure, and proposal). The responsible ACO, or cost/price analyst, 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 and DFARS/PGI 215.404-2).

3.3.2.4.1. Audit assistance from DCAA should be considered for fixed-price proposals exceeding \$10 million and cost-type proposals exceeding \$100 million. Audit assistance should not be requested under these thresholds unless exceptional circumstances exist.

3.3.2.4.2. The ACO, or cost/price analyst, should consider the need for providing assistance to the prime contractor in evaluating lower-tier subcontractor proposals when denied access to the subcontractor's records. When deciding whether assistance is necessary, ACOs should consider the dollar value of the subcontracts, subcontractor estimating system deficiencies, and subcontractors denying access to their records. DFARS/PGI 215.404-3(a) provides additional information concerning the need for field pricing analysis, evaluation of subcontractor proposals, and providing assistance to prime contractors.

3.3.2.4.2.1. A prime contractor requesting DCMA assistance in evaluating a subcontractor's proposal shall submit their request to the ACO in writing. The prime contractor shall document their efforts to evaluate the subcontractor's proposal.

3.3.2.4.2.2. If the prime contractor DCMA activity decides field pricing assistance to the prime contractor is necessary, a subcontractor review may be requested from the subcontractor DCMA activity. If requested, the subcontractor DCMA activity shall perform the subcontractor review. The subcontractor DCMA activity shall ensure the subcontractor's written restrictions concerning the release of their data to the prime contractor are attached to the cost and pricing analysis report provided to the prime contractor DCMA activity.

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

3.3.3. Profit Analysis. FAR 15.404-4 and DFARS/PGI 215.404-4 address 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.

3.3.3.1. 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/PGI 215.404-74) or Federally Funded Research and Development Centers (DFARS/PGI 215.404-75) contracts.

3.3.3.1.1. The three structured approaches used for developing a pre-negotiation profit or fee objective are the weighted guidelines method (DFARS/PGI 215.404-71), the modified weighted guidelines method (DFARS/PGI 215.404-72), and an alternate structured approach (DFARS/PGI 215.404-73). The weighted guidelines method is the most commonly used structured approach for profit analysis and shall be used unless an exception applies.

3.3.3.1.2. DD Form 1861, Contract Facilities Capital Cost of Money, shall be used to estimate facilities capital cost of money and capital employed when using the weighted guidelines method. It is designed to compute the contract facilities capital cost of money and capital employed which is carried forward to DD Form 1547, Record of Weighted guidelines Method Application.

3.3.3.1.3. The DD Form 1547 and DFARS/PGI 215.404-70 shall be used whenever a structured approach to profit analysis is required.

3.3.4. The results of the proposal analysis may be documented in the PNOM or cost and pricing analysis report. If a cost and pricing analysis report is issued, it shall be considered when establishing the pre-negotiation objectives in the PNOM.

### **3.4. PREPARE COST AND PRICING ANALYSIS REPORT.**

3.4.1. The cost/price analyst shall prepare a well-documented cost and price analysis report incorporating the findings and recommendations of the functional areas within the DCMA activity and any DCAA audit using the "Cost and Price Analysis Report Template" available on the P&N resource page.

3.4.1.1. If subcontractor field pricing assistance is provided for the prime contractor, the subcontractor DCMA activity shall ensure the subcontractor's written restrictions concerning the release of their data to the prime contractor are attached to the cost and pricing analysis report provided to the prime contractor DCMA activity. The subcontractor DCMA activity may prepare a second releasable report conforming to the subcontractor's written restrictions for release to the prime contractor. However, the ACO for the prime contractor DCMA activity shall ensure the report released to the prime contractor conforms to the subcontractor's written restrictions.

3.4.1.2. The cost and price analysis report shall clearly state the type of analysis used to evaluate the proposal supported by work papers including any requirements for obtaining certified cost or pricing data at FAR 15.403 and DFARS 215.403. The work papers may be in any format and shall be reviewed and signed by the pricing chief, or equivalent authority.

3.4.1.3. The pricing chief or equivalent authority shall review, approve, and sign the cost and price analysis report prior to release to the customer.

3.4.1.4. If the initial due date 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.

3.4.2. All technical reports, cost and price analysis reports, and other pricing documents containing Government or contractor proprietary data, shall be marked "For Official Use Only" or at a higher security level if mandated by the contract or solicitation. Add "Source Selection Information – See FAR 2.101 and 3.104" to the documents, if applicable (FAR 3.104-4).

3.4.3. The cost and pricing analysis report and any supporting documentation shall be sent to the customer. If sending the cost and pricing analysis report completes the pricing support case, the case shall be closed in the P&N eTool.

3.4.4. DCMA Instruction, "Records Management" (Reference (e)), provides an orderly system for organizing records for filing, reference and eventual disposition. The EDW shall be used as the official filing system. The responsibility for historical documentation of transactions that occur during a work process rests with the office executing that process.

### **3.5. PROVIDE NEGOTIATION SUPPORT.**

3.5.1. A negotiation support case may involve part or all of the entire negotiation process as described in paragraph 3.1.2.3. If proposal analysis is requested, the supporting DCMA activity shall obtain an adequate proposal and other necessary documents (paragraph 3.1.2.1), perform a proposal review (paragraph 3.2), and conduct a proposal analysis (paragraph 3.3).

3.5.2. Pre-negotiation objectives establish the Government's initial negotiation position before entering negotiations with the contractor. The scope and depth of the analysis supporting the objectives should be based on the dollar value, importance, and complexity of the pricing action. When cost analysis is required, the contracting officer shall document the issues to be negotiated, the cost objectives, and a profit or fee objective (FAR 15.406-1(b)).

3.5.2.1. DFARS/PGI 215.406-1 provides additional guidance concerning pre-negotiation objectives and the disposition of findings and recommendations contained in audit and other advisory reports. Pre-negotiation objectives, including objectives related to disposition of findings and recommendations contained in contract audit and other advisory reports, shall be documented.

3.5.2.2. Allowable Profit for UCAs (DFARS/PGI 217.7404-6). When the final price of a UCA is negotiated after a substantial portion of the required performance has been completed, the head of the contracting activity shall ensure the profit allowed reflects any reduced cost risk to the contractor for costs incurred during contract performance before negotiation of the final price; the contractor's reduced cost risk for costs incurred during performance of the remainder of the contract; and the requirements at DFARS 215.404-71-3(d)(2). The risk assessment shall be documented in the contract file.

3.5.2.3. The ACO shall thoroughly document how the profit objectives were established. If the profit objectives are changed or not achieved, the ACO shall document the rationale for deviating from the objectives in the PNM.

3.5.2.4. Pre-negotiation objectives shall be documented using the "Pre-Negotiation Objectives Memorandum (PNOM) Template" with the appropriate level of approval prior to entering into negotiations. If the total pre-negotiation objectives do not exceed the simplified acquisition threshold (SAT), the ACO may use the "Combined PNOM/PNM Template" to document the pre-negotiation objectives and the subsequent negotiation results with the appropriate level of review and approval.

3.5.2.5. If no further negotiation support is required, the ACO shall send the PNOM to the customer to complete negotiation support.

3.5.3. Schedule negotiations with the contractor after completing the approved PNOM. The ACO may request the functional specialists who were involved with the analysis, from within or outside of DCMA, to attend the negotiations with the contractor. If a DCAA audit was in support of the negotiations, the negotiator shall invite the DCAA auditor to attend the negotiations.

3.5.3.1. The ACO, or the negotiator designated by the ACO, is responsible for conducting negotiations and ensuring Government attendees understand their roles in the negotiation process. If the ACO is not the principal negotiator, the contractor must be informed that the understanding reached does not become an agreement until the ACO concurs. Also, the resulting agreement is not contractually binding until the appropriate levels of approval are received and the contract action is executed.

3.5.3.2. When certified cost or pricing data are required, the ACO shall require the contractor to execute a Certificate of Current Cost or Pricing Data using the format in FAR 15.406-2.

3.5.4. Document the negotiations using the "Price Negotiation Memorandum (PNM) Template" or the "Combined PNOM/PNM Template." FAR 15.406-3 and DFARS/PGI 215.406-3 provide the information required for documenting the negotiations. The ACO or negotiator 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.

3.5.5. Review and approval levels for a PNOM, PNM, and Combined PNOM/PNM are dictated by the dollar value of the action and any DCMA Boards of Review (BoR) requirements. The negotiator and the ACO (if not the negotiator) shall sign the document regardless of the dollar value and the template used. The DCMA activity may establish a higher level for approval than identified below.

3.5.5.1. Dollar Value Does Not Exceed the SAT. The approval level for a PNOM or PNM of this dollar value is the ACO. The “Combined PNOM/PNM Template” may be used if both the pre-negotiation objective and the negotiated amounts do not exceed the SAT with the ACO as the approving authority for the PNOM and PNM sections in the template. If the negotiated amount exceeds the SAT, the “PNM Template” shall be used to document the negotiations instead of the PNM section of the Combined PNOM/PNM document with the appropriate dollar value level of approval.

3.5.5.2. Dollar Value Exceeds SAT But Does Not Exceed the Threshold for Obtaining Certified Cost or Pricing Data. The approval level for a PNOM or PNM of this dollar value is at least one level above the ACO.

3.5.5.3. Dollar Value Exceeds the Threshold for Obtaining Certified Cost or Pricing Data. The approval level for a PNOM or PNM of this dollar value is the CMO contracts director or corporate/divisional ACO group supervisor.

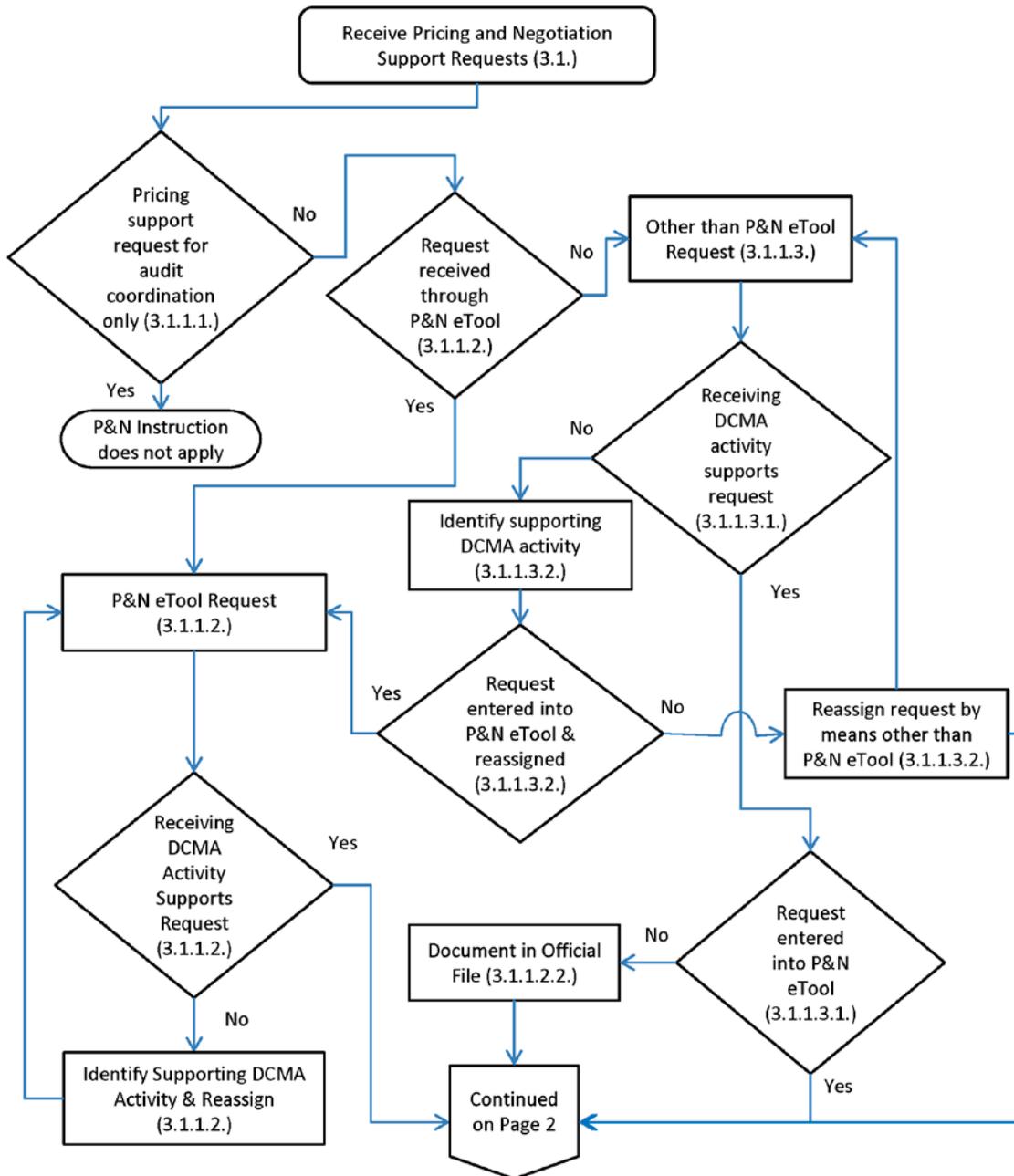
3.5.5.4. Refer to the DCMA Instruction “Contract Management Boards of Review” (Reference (d)) for any additional review requirements. Reference (d) does not apply if the negotiation support requested does not require the ACO to execute the contract action.

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 approval for the PNM before executing the contract action.

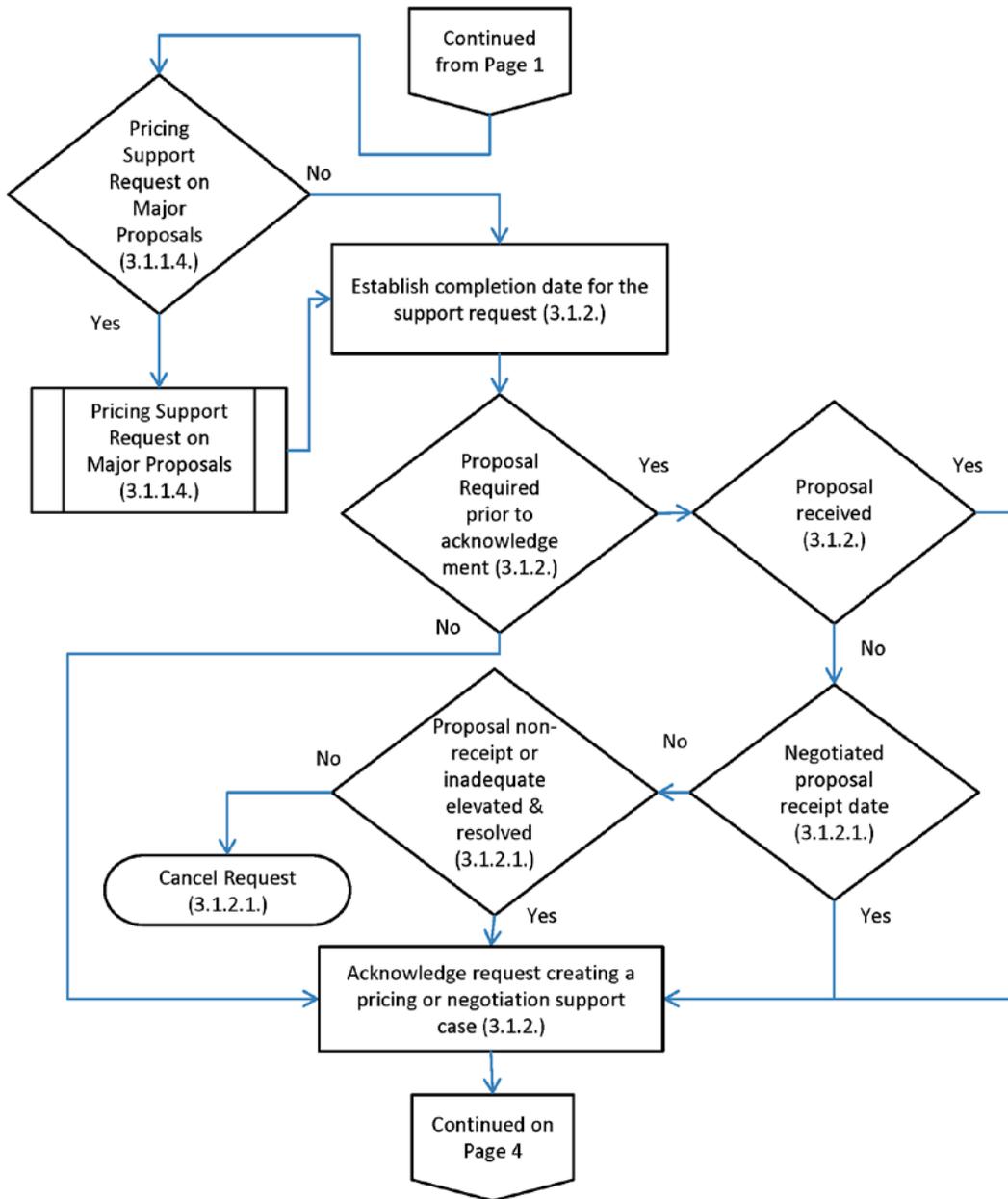
3.5.7. The ACO shall provide a copy of the approved PNM or Combined PNOM/PNM to the customer and all individuals or offices that provided assistance (e.g., DCAA, the cost/price analyst, functional specialists, and other DCMA activities) upon completion of the negotiation support. The ACO shall also provide the customer a copy of all documentation relevant to the negotiation process.

3.5.8 Records Management. Reference (e) provides an orderly system for organizing records for filing and eventual disposition. The EDW shall be used as the official filing system. The responsibility for documentation of transactions that occur during a work process rests with the office executing that process. The ACO shall close the case in the P&N eTool.

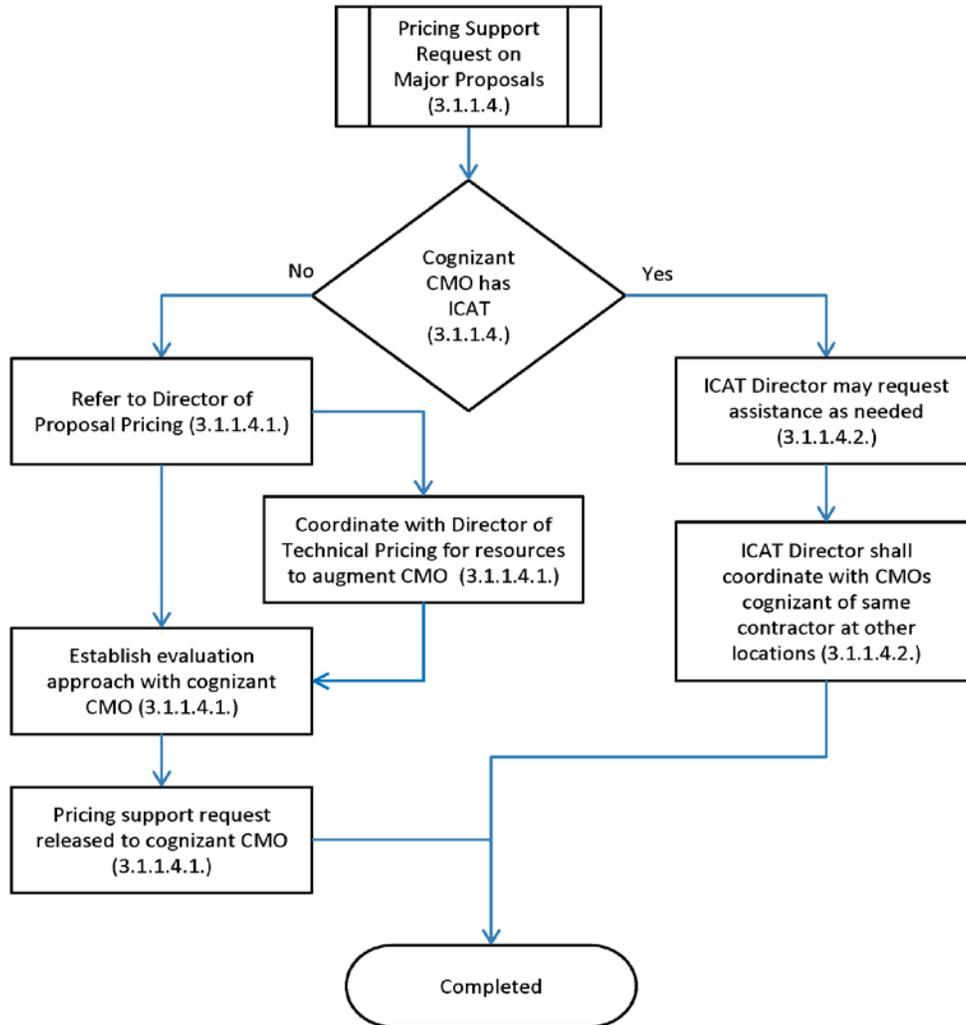
# Pricing and Negotiations – Contracts Flow Chart



# Pricing and Negotiations – Contracts Flow Chart

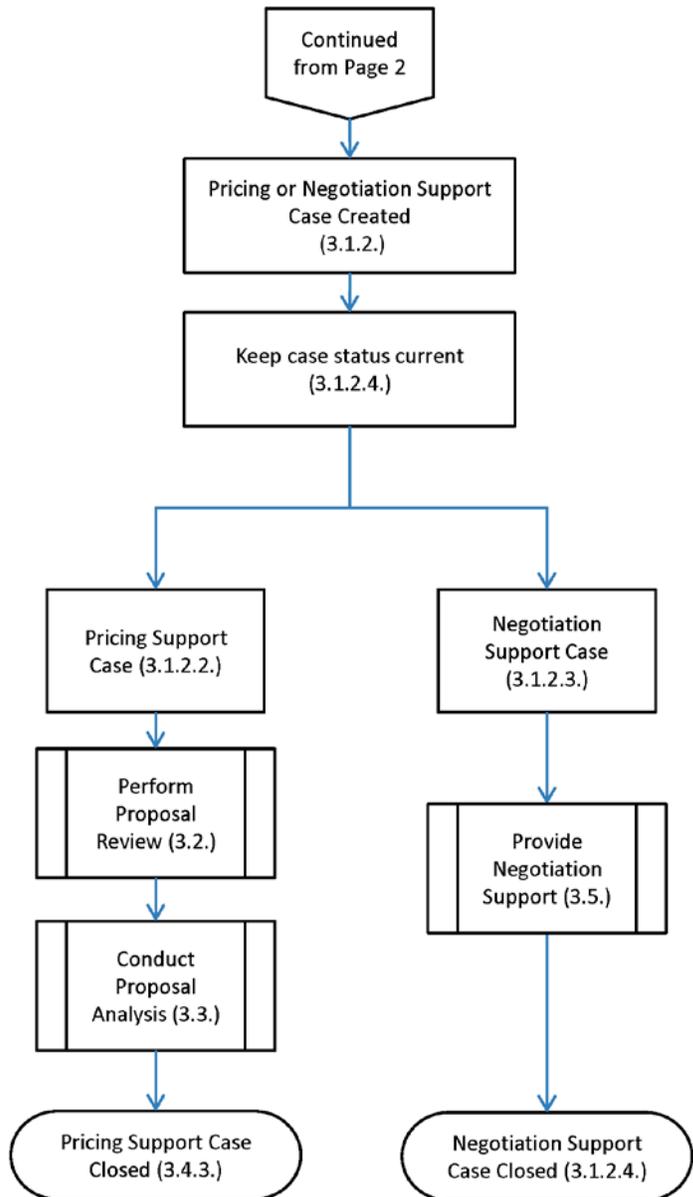


# Pricing and Negotiations – Contracts Flow Chart

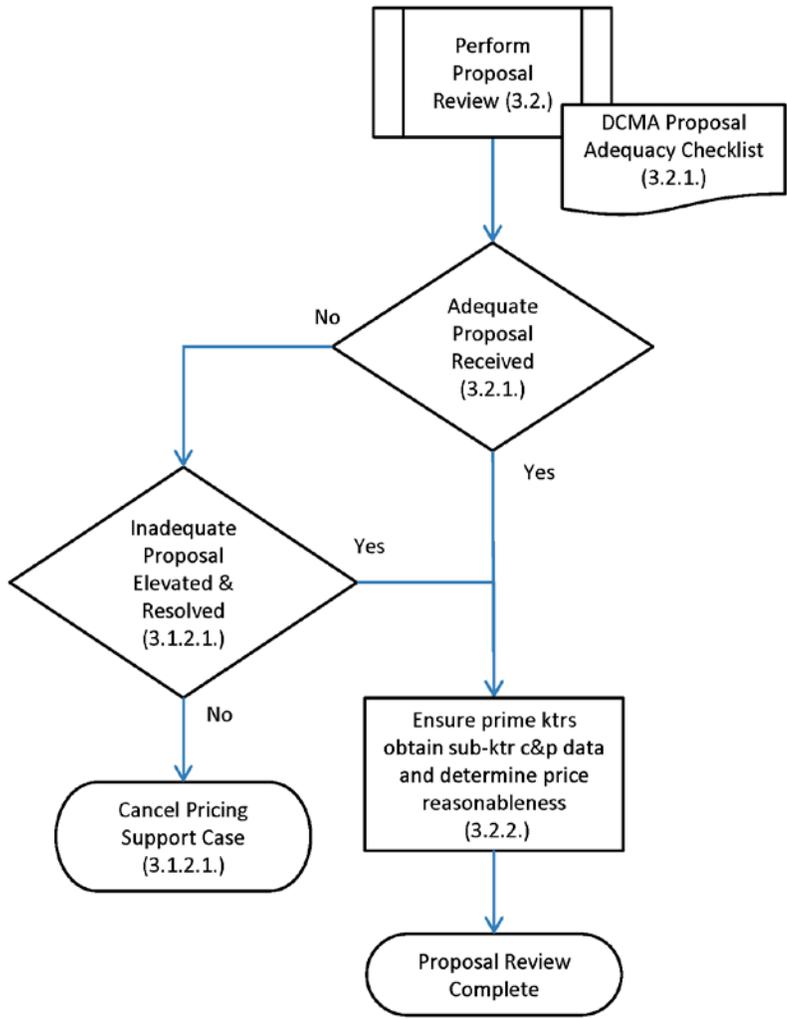


(3)

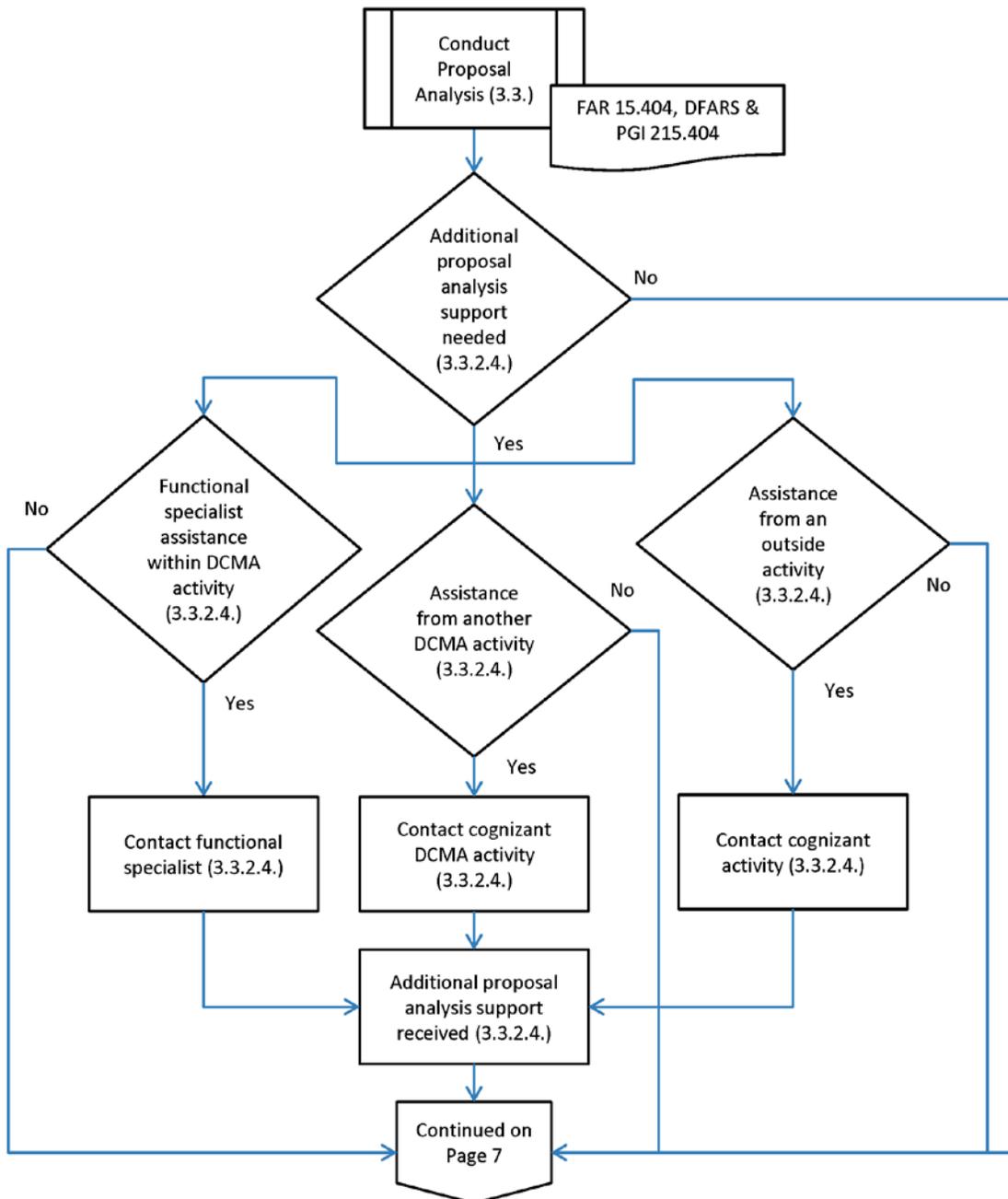
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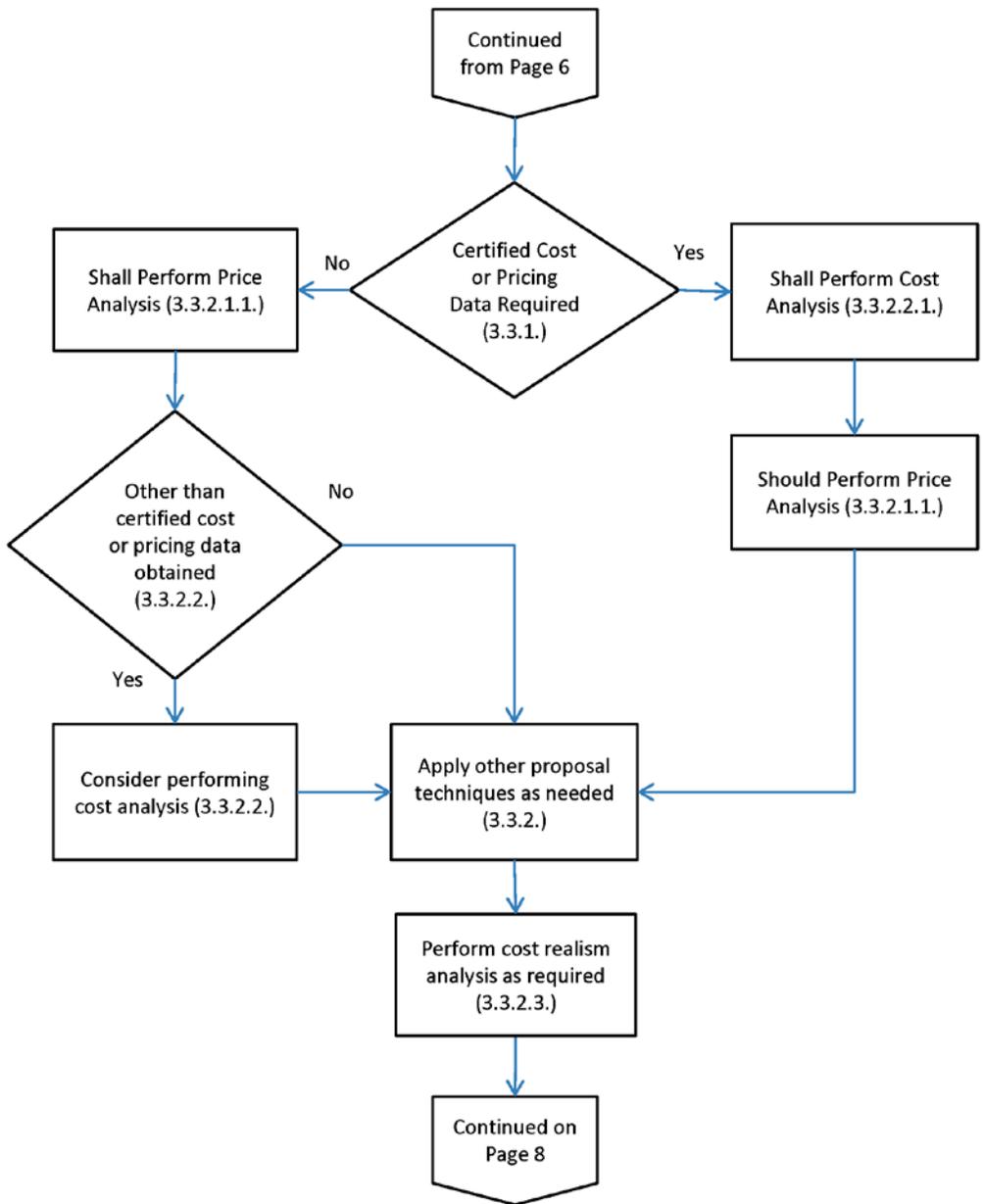
# Pricing and Negotiations – Contracts Flow Chart



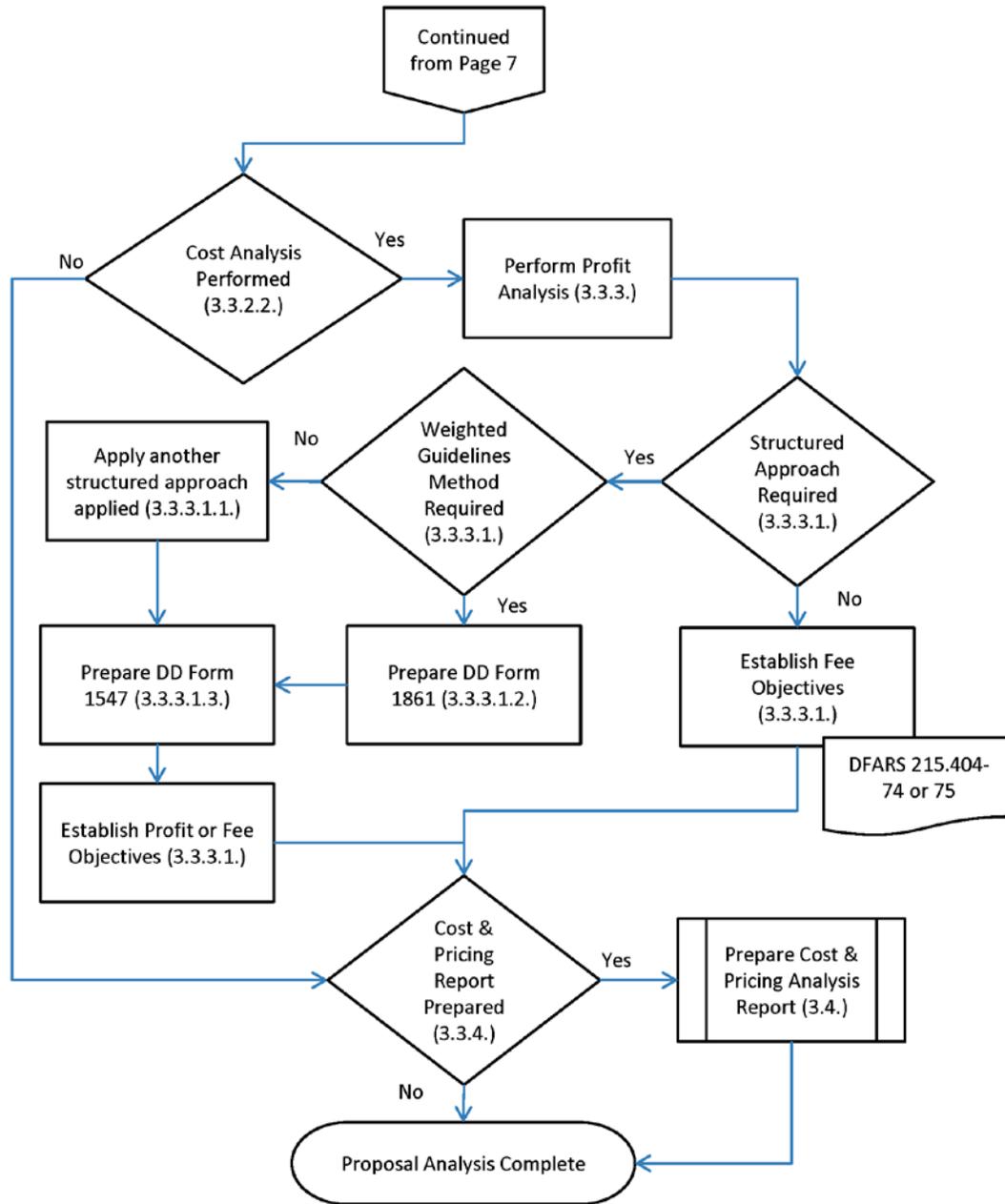
# Pricing and Negotiations – Contracts Flow Chart



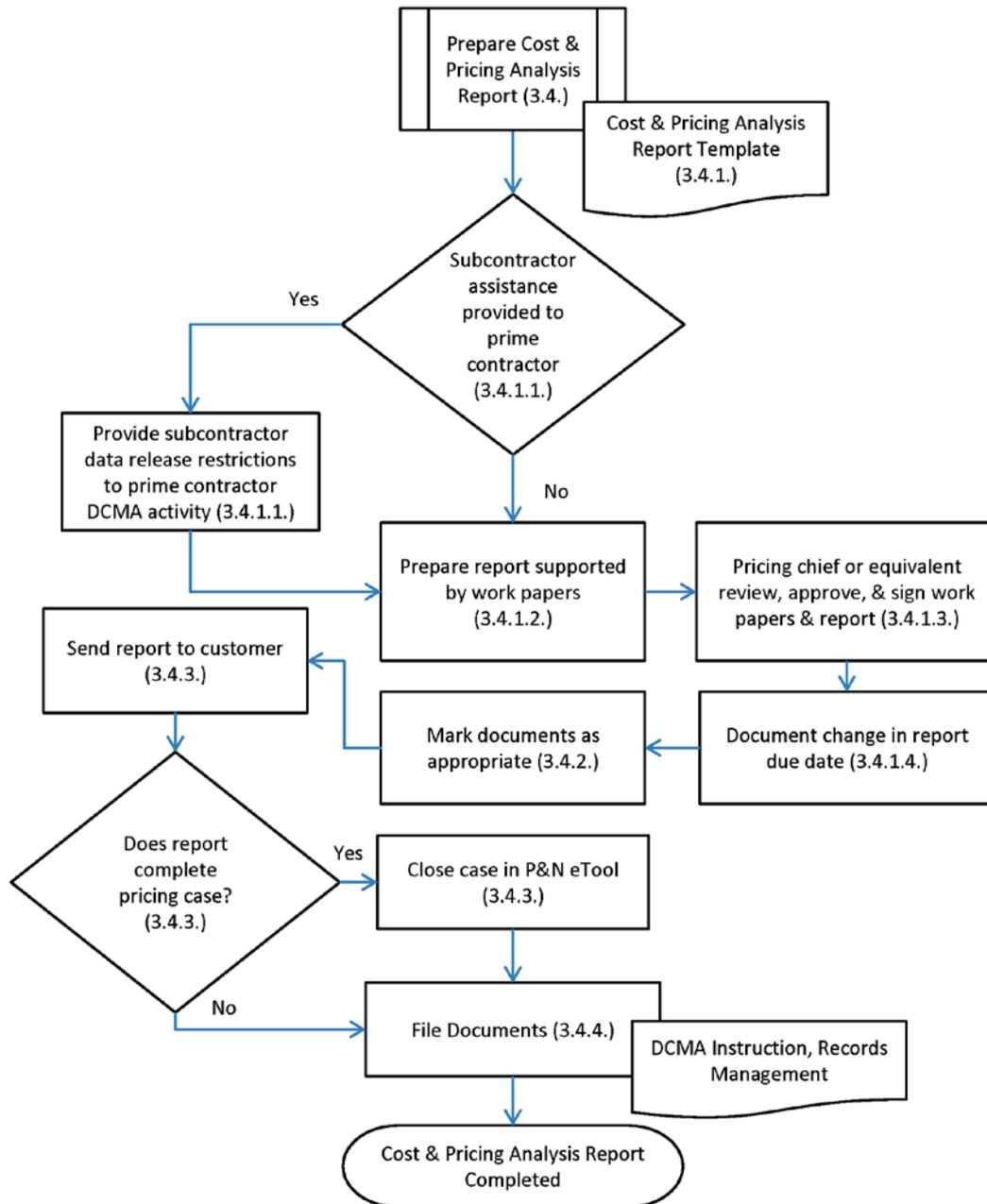
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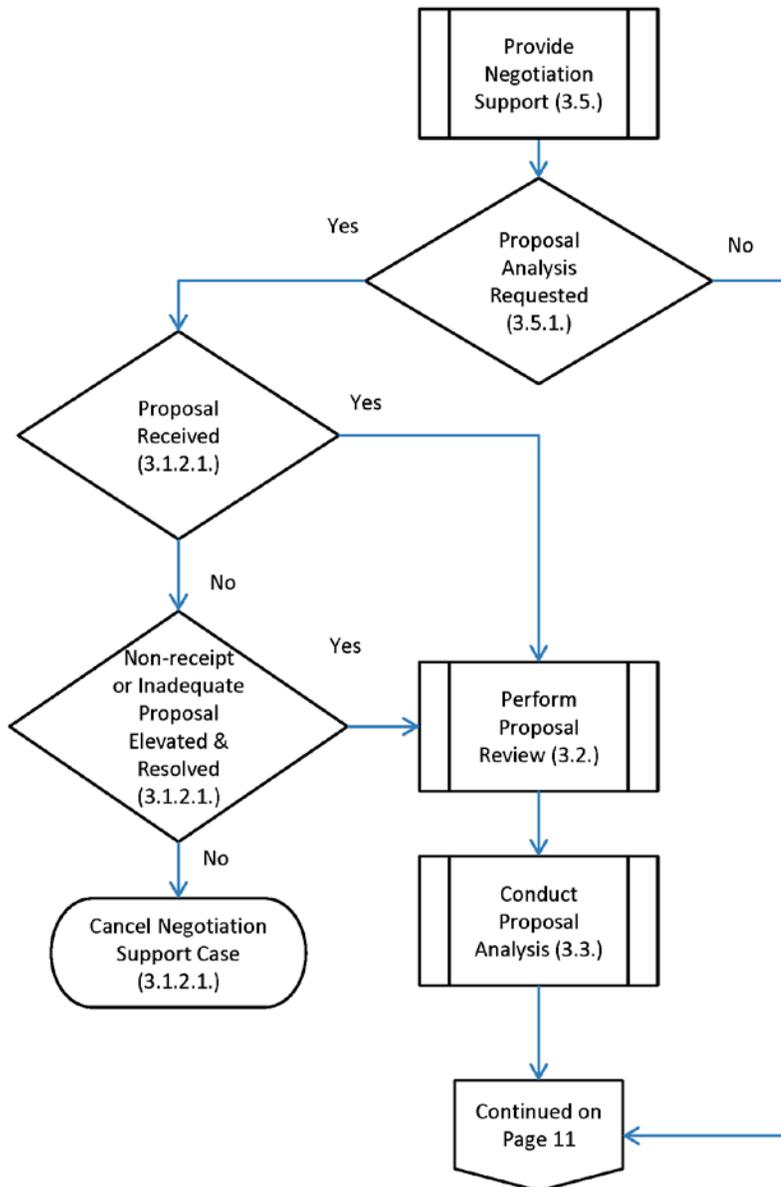
# Pricing and Negotiations – Contracts Flow Chart



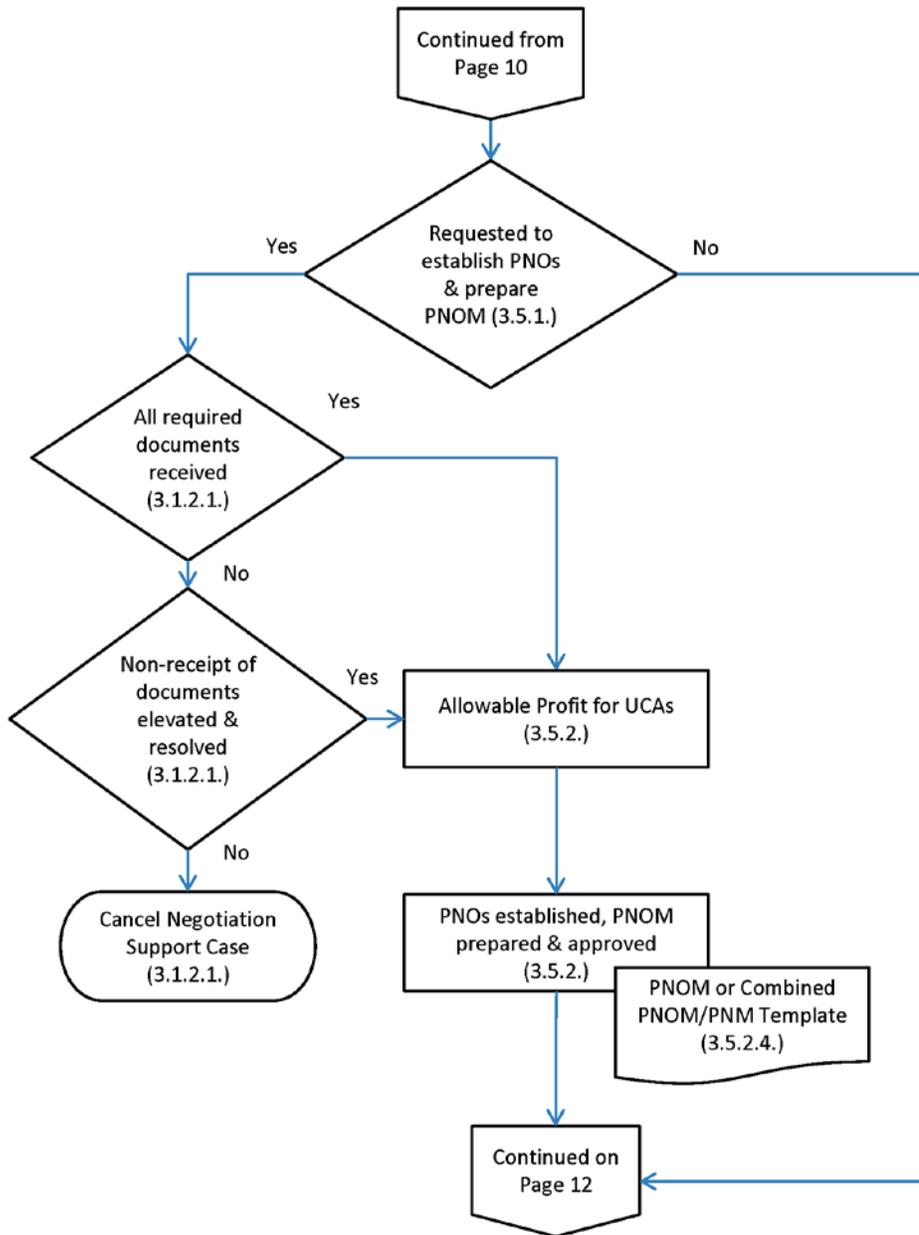
# Pricing and Negotiations – Contracts Flow Chart



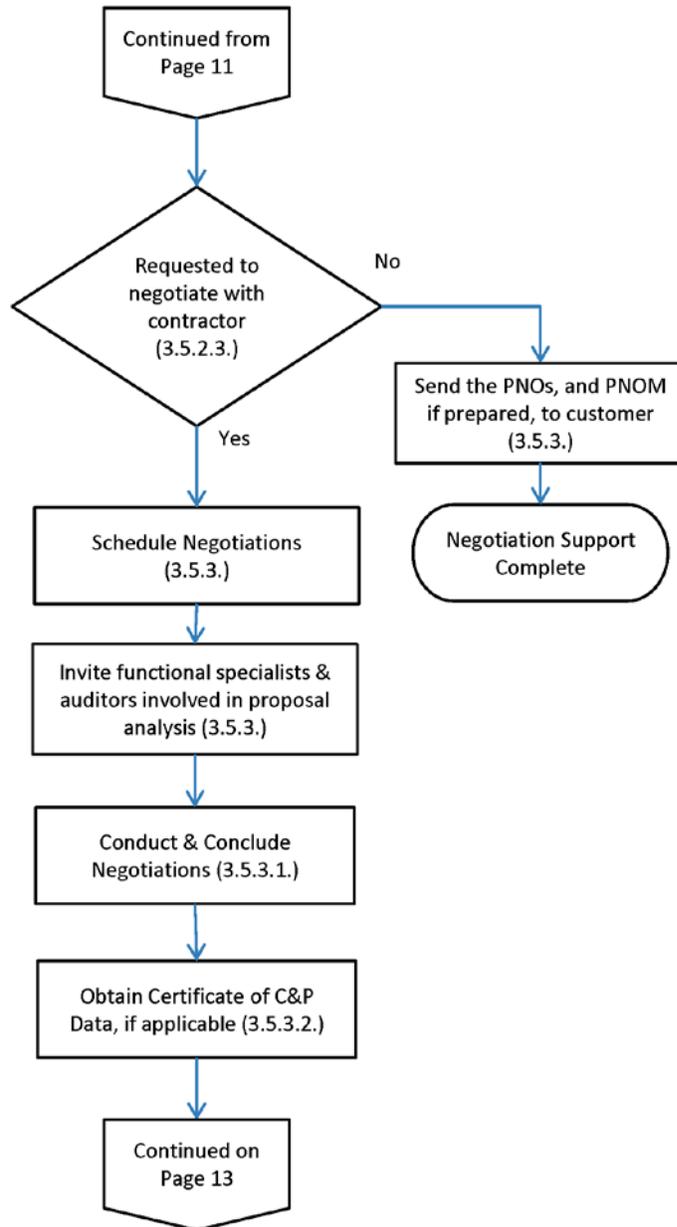
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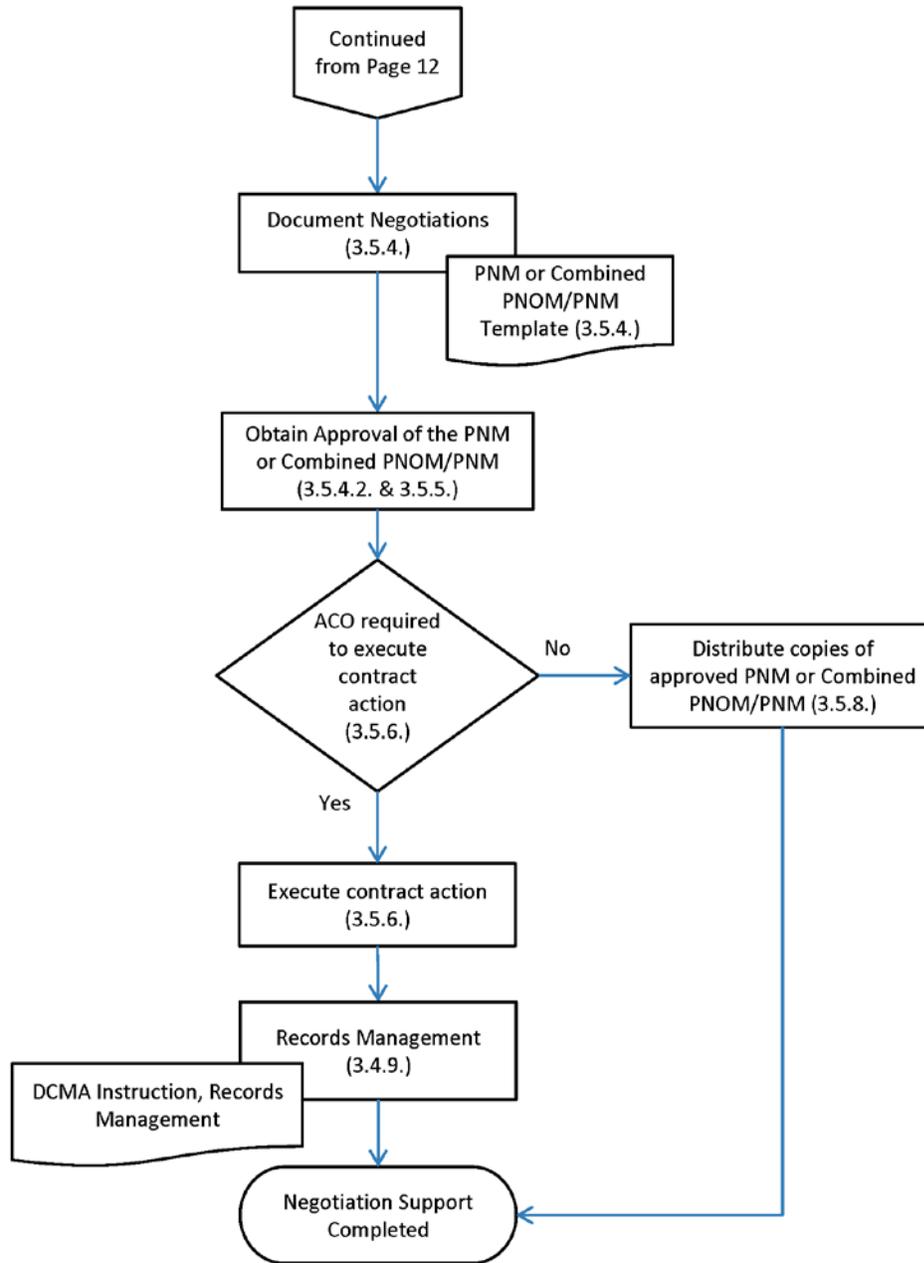
# Pricing and Negotiations – Contracts Flow Chart



# Pricing and Negotiations – Contracts Flow Chart



# Pricing and Negotiations – Contracts Flow Chart



## GLOSSARY

### ACRONYMS

ACO	administrative contracting officer
BOR	Boards of Review (Contract Management Boards of Review)
CACO	corporate administrative contracting officer
CMO	contract management office
DACO	divisional administrative contracting officer
DCAA	Defense Contract Audit Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DFARS PGI	DFARS Procedures, Guidance, and Information
EDW	Electronic Document Workflow
E&A	Engineering and Analysis
FAR	Federal Acquisition Regulation
ICAT	integrated cost analysis team
P&N	pricing and negotiation
PNOM	pre-negotiation objectives memorandum
PNM	price negotiation memorandum
SAT	simplified acquisition threshold
UCA	undefinitized contract action