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Pricing Support in the Contract Administration Office

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OVERVIEW

Certain FAR 42.302 duties are required to be delegated to a contract administration office. This session covers those that relate to the Cost Allocation Cycle (Forward Pricing, Billing, Final Indirect Rates) as well as the function of reviewing a contractor's cost proposal from both a technical and a cost perspective.

Cost Accounting Standards will also be touched upon as a function that must be delegated.



FAR 42.201

Contract Administration Responsibilities.

- (a) For each contract assigned for administration, the contract administration office (CAO) (see 48 CFR 2.101) shall --
- (1) Perform the functions listed in 42.302(a) to the extent that they apply to the contract, except for the functions specifically withheld;
 - (2) Perform the functions listed in 42.302(b) only when and to the extent specifically authorized by the contracting officer; and
 - (3) Request supporting contract administration under 42.202(e) and (f) when it is required.



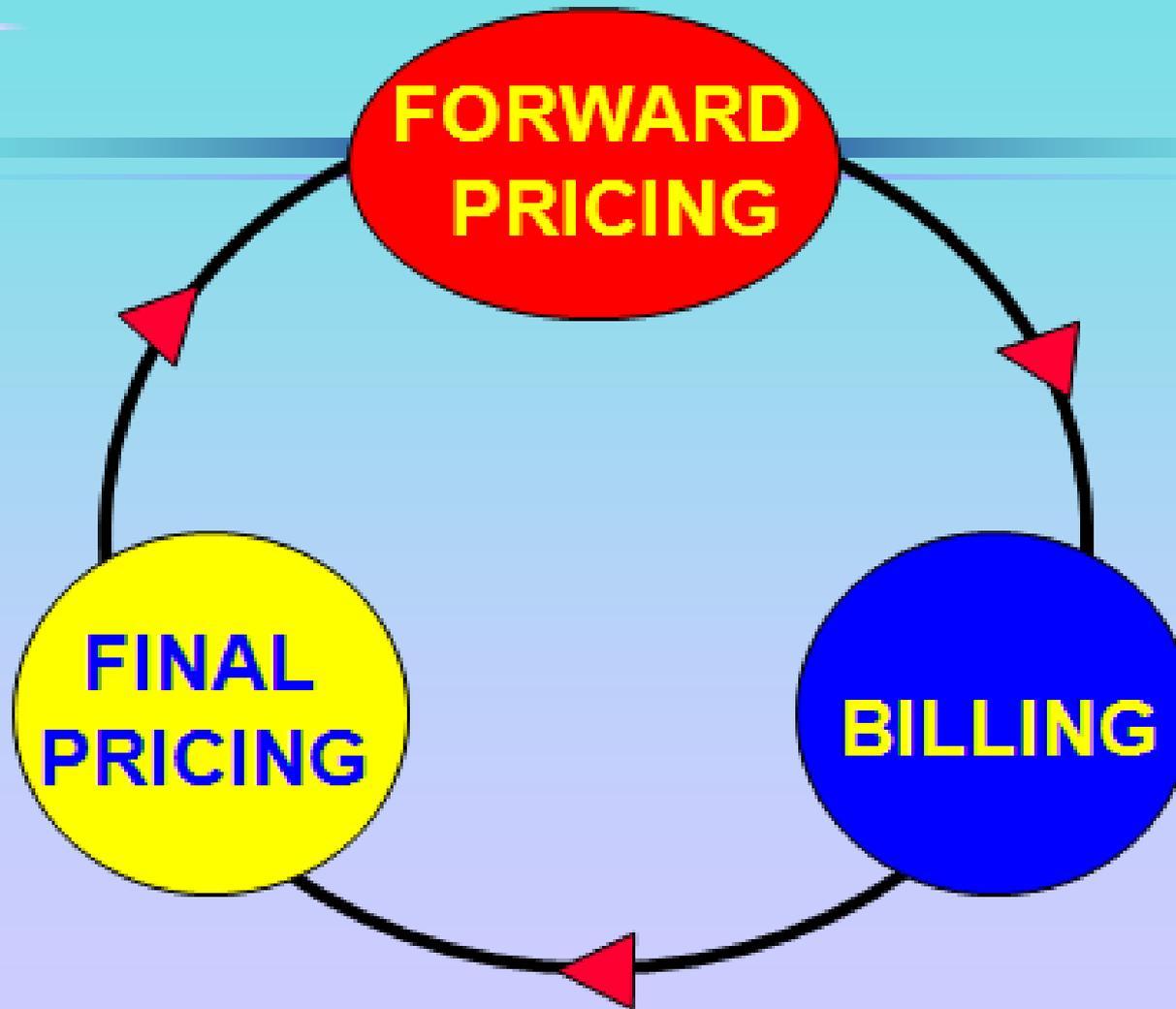
FAR 42.302

Which functions must be delegated?

- (a)(5) Negotiate Forward Pricing Rate Agreements
- (a)(9) Establish Final Indirect Rates/Billing Rates
- (a)(11) Administration of Cost Accounting Standards
- (a)(12) Determine Adequacy of Contractor's Accounting System

DFARS 242.302(S-71) Adds Reviewing EVMS Plans

COST ALLOCATION CYCLE





DELEGATION OF CONTRACT ADMINISTRATION

- FAR Part 42 and DFARS Part 242 provide regulatory guidance regarding contract administration and delegation
- Out of the 82 delegable functions, almost a third are Pricing related
- Some of the primary areas are:
 - Forward Pricing Rate Agreements (FPRAs)
 - Cost Accounting Standards (CAS)
 - Final Indirect Rate Settlement
 - Contractor Business Systems
 - Review and Evaluate Contractors' proposals
 - Negotiate repairs, spares and undefinitized contractual actions



FORWARD PRICING RATES

- Defined in FAR 2.101(b):
 - FPRA - 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 RATES

- Defined in FAR 2.101(b):
 - FPRR - a rate developed 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



FORWARD PRICING RATES

FAR 42.302(a)(5): Establishes that the ACO is responsible for negotiating FPRAs. This function may not be retained by the PCO.

FAR 42.17 Forward Pricing Rate Agreements: States that negotiation of an FPRA may be requested by a contracting officer or the contractor -- or initiated by the ACO. Directs the ACO to consider whether the benefits to be derived from an FPRA are commensurate with the effort of establishing and monitoring the agreement. This section of FAR suggests that FPRAs be negotiated only with contractors having a significant volume of Government contract proposals.

FAR 15.407-3, Forward Pricing Rate Agreements: Directs contracting officers to use FPRA rates for pricing all contracts, modification, and other contractual actions to be performed during the period covered by the FPRA.



FINAL INDIRECT RATES

- FAR 42.302(a)(9): Requires that the ACO must establish final indirect cost rates and billing rates. This function may not be retained by the PCO.
- Used to establish final prices for flexibly priced contracts and revise billing rates on ongoing contracts
- FAR 2.101: “Final indirect cost rate” means the indirect cost rate established and agreed upon by the Government and the contractor and not subject to change



FINAL INDIRECT RATES

- FAR 42.705-1: Provides guidance and states the contractor, contracting officer, and auditor must work together to make the proposal, audit and negotiation as efficient as possible
- Contractor required to submit adequate, certified final indirect cost rate proposal within 6 months of the end of its FY
 - Certifies that no expressly unallowable costs are included in proposal
- A DCAA audit of the contractor's final indirect rate proposal is required



COST ACCOUNTING STANDARDS

- FAR 42.302(a)(11): Requires the ACO to administer Cost Accounting Standards. This function may not be retained by the PCO.
- Very complex area – requires knowledge of FAR Part 30, CAS Public Law 9903.3, and past legal decisions
- Standards issued by the OFFP's Cost Accounting Standards Board (CASB) used for the estimating, accumulating and reporting of costs - currently there are 19 Standards



COST ACCOUNTING STANDARDS

- GAAP (Generally Accepted Accounting Principles) focuses on Financial Accounting (the fair presentation of the company's assets, liabilities and owner equity to third parties), whereas CAS focuses on accounting for costs of specific contracts (measuring, assigning and allocating costs to cost objectives)
- Contractor subject to CAS coverage may be required to submit an ADEQUATE and COMPLIANT Disclosure Statement of their cost accounting practices and comply with is disclosed practices. All CAS-covered contractors must COMPLY with the standards for which they must follow (Full or Modified coverage)



COST ACCOUNTING STANDARDS

- CAO Role in Cost Accounting Standards:
 - Responsible for administering the CAS
 - Makes determination of adequacy and compliance
 - Resolves cost impacts resulting from changes in cost accounting practices and noncompliance with CAS requirements



CONTRACTOR BUSINESS SYSTEMS

- CAO is responsible for review of various business systems.
- Must maintain system status information.
- Must evaluate and track corrective actions.

FAR 42.302(a)(12): ACO is responsible for Accounting System Adequacy Determination. This function may not be retained by the PCO.



CONTRACTOR BUSINESS SYSTEMS

- Other Business Systems Include:
 - Billing System Review
 - Material Management Accounting System
 - Contractor Employee Compensation System Review
 - Contractor Estimating System Review
 - Contractor Purchasing System Review
 - Contractor Insurance and Pension Review
 - Earned Value Management System Review

No matter which organization is the lead, ACO solely responsible for determination of acceptability, adequacy, approval or compliance.



PROPOSAL ANALYSIS / SUPPORT TO NEGOTIATIONS

- Proposal Analysis:
 - Cost and Price Analysis
 - Technical Analysis – Engineer, Industrial Specialist or Price/Cost Analyst
 - Coordination with DCAA & business advice on audit findings
 - Field Pricing Support Assistance (e.g., subcontractor proposals)



PROPOSAL ANALYSIS / SUPPORT TO NEGOTIATIONS

- Support to Negotiations
 - Create spreadsheet models to use for developing Pre-Negotiation Objective Memo (PNOM) and during negotiations
 - Provide business advice on negotiation strategies
 - Attend and participate in negotiations
 - Incorporate and update positions based on additional inputs
 - Prepare PNOM and/or PNM



QUESTIONS?