



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

SEP 14 2012

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

SUBJECT: Improved Business Base Forecasting and Evaluation

In my November 16, 2011 memorandum, I reaffirmed DCMA's responsibility for the establishment of Forward Pricing Rate Agreements (FPRAs) and Forward Pricing Rate Recommendations (FPRRs).

DCMA's ability to successfully negotiate an FPRA or FPRR is the direct result of a comprehensive review of many elements, foremost of which is the evaluation of the contractor's business base forecast. Historically, unreliable forecasting of the business base, particularly in the out-years of a contractor's forward pricing rate proposal (typically years 3-5), has been the leading cause of inaccurate rate proposals, recommendations and agreements. It is also the single leading factor in our inability to reach an agreement on rates with a number of companies. It has resulted in significant dollars at risk in the out years of these rates or agreements. We cannot afford to have this situation continue.

Participation in the base review by selected buying activities is critical to enhancing the accuracy of the business base forecast. Currently, the business base is reviewed by DCMA and DCAA specialists with limited input from the buying activities, where helpful expertise resides. We need to improve the base review process, and plan to proceed in two steps.

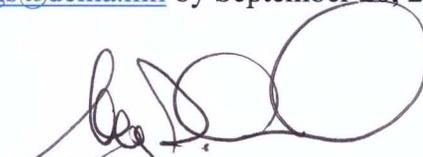
Effective immediately, I am requesting increased engagement of each Service in the analysis of the business base described in our contractor forward pricing rate proposals. When DCMA executes a contractor base forecast review, they will require support from the buying activities and program office(s) doing business with that contractor. To better manage this effort and improve our results, I request that each SAE identify an OPR to receive these DCMA requests.

The Service OPR will serve as the point of entry for DCMA to coordinate with the buying activities and program offices that will perform the review and will ensure the base evaluation requests are assigned, completed and returned to DCMA/DCAA in a timely fashion. As a result of the review, DCMA will be able to engage in more informed discussions on business base during negotiations with the contractor while seeking to establish an FPRA or FPRR. Specific requirements for the evaluation will be provided by the cognizant DCMA contract management office with the request.

The second step in business base review process improvement, which I intend to implement in time to support CY13 proposal evaluations, will require the Services to provide DCMA and DCAA with business base information at the conclusion of their POM submission on an annual basis, updated during the course of the year to document changes to the business base. This information will provide DCMA, DCAA and the Services with the Government's base projection for our contractors in advance of their projections, allowing DCMA and DCAA to minimize and prioritize their requests for business base review and to identify potential changes in overhead expenses as a function of changes to the business base by contractor facility.

A matrix with the specific requirements for the Services annual POM based projection is currently being prepared by a team comprised of the Services, DCAA and DCMA. This matrix will be published in the DCMA instruction and shared with the services.

Please submit the name of your OPR to the Director of the DCMA Cost and Pricing Center, Mr. Ronald Youngs, Ronald.Youngs@dcma.mil by September 20, 2012.



Shay D. Assad
Director, Defense Pricing