DCMA Cost and Pricing Overview

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Cost and Pricing Center Background
  • Agency Pricing Strategy

Proposal Pricing Group Overview
  • Overhead Should Cost Reviews
  • Mobile Pricing Surge Support
  • Commercial Pricing

Integrated Cost Analysis Teams (ICATs)

Corporate and Divisional ACO Group Overview

Data Analysis, Training, and Recruitment Group Overview
  • CBAR

Financial Capability Group Overview
Cost and Pricing Center Structure

Cost and Pricing Center

Technical Pricing Group

Proposal Pricing Group
Mission: To provide assistance and training related to: the analysis and negotiation of pricing proposals, commercial pricing, monitoring of indirect cost, forward pricing, audit issues and overhead should cost reviews.

Commercial Item Group
Mission: To assist Contracting Officers in conducting market research and analysis and in making commercial item determinations and price reasonableness recommendations included in prime and subcontract proposals.

Data Analysis, Training and Recruitment Group
Mission: To develop and maintain data analysis tools and support the recruitment and professional development of Cost/Price Analysis in DCMA.

Corporate Administrative Contracting Officer Group
Mission: To provide Corporate and Divisional level contract administration services at major defense contractors. Direct the CIPR team to support CACOs/DACOs with Insurance and Pension Analysis for their respective corporations and business segments.

Financial Capability Group
Mission: To provide pre-award, post-award and industrial base financial analysis.
Starting in 2009 - substantially strengthened cost and pricing capability to correct a pricing material weakness

Growth focused on rebuilding DCMA infrastructure to support large acquisitions

Primary drivers of this improvement are a persistent USD AT&L focus on driving cost out of the Departmental supply chain by thorough analysis and hard bargaining

Hub-site locations initially driven by availability of scarce, knowledgeable pricing talent or existing employee concentrations

Major successes realized to date in proposal pricing capability, network of contracting officers responsible for indirect rates and specialized reviews of contractor indirect costs Overhead Should Cost Reviews (OHSCRs)
Benefits to DOD Customers

- **ICAT**: Intensive business and technical pricing support at major contractor locations
  - FPRA/FPRR dedicated expertise to focus on indirect expenses - which account for the majority of costs on major acquisitions
  - Direct and indirect cost monitoring and reduction/containment initiatives
  - Business base analysis
  - Business system oversight
  - Pension and Insurance expertise
  - Disclosure statement
  - Determinations

- **Non-ICAT**: Surge support on all major proposals throughout Agency
  - Integrate business and technical capability on "mobile" teams
  - Perform Overhead Should Cost Reviews supporting Better Buying Power
  - Integrate Navy Price Fighters’ Support
  - OJT and Other Training Support
  - CBAR development and management
  - CID recommendations and price reasonableness support
  - Cost Estimating Factor Reviews
  - Financial Capability Reviews

- **CACO/DACO Realignment**: Building consistency in overhead and business system decisions at all major contractor locations
  - Evaluate major proposals at non-ICAT segment locations
  - Complement ICAT prime proposal reviews by providing analyses of major subcontractors
  - Augmentation support for Overhead Should Cost Reviews

- **CBAR**: Real-time business information for contractors’ forward pricing rates, cost accounting standards issues and business systems status.
  - Just-in-Time support on O/H and CAS issues at non-CACO/DACO locations
  - Provide surge capability from across DCMA to enhance supply chain proposal pricing quality and timeliness

Benefits to DOD Customers

- **Cost & Pricing Center** expands DCMA pricing capability and support
  - Integrate business and technical capability on "mobile" teams
  - Perform Overhead Should Cost Reviews supporting Better Buying Power
  - Integrate Navy Price Fighters’ Support
  - OJT and Other Training Support
  - CBAR development and management
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- **PRICING CENTER HUBS**
  - Provide surge capability from across DCMA to enhance supply chain proposal pricing quality and timeliness

- **INTEGRATED COST ANALYSIS TEAMS (ICAT CMOs)**
  - Dedicated business/technical proposal pricing teams at major contractor locations
  - Teams intensively engaged with and knowledgeable of contractor’s systems
  - Pricing and negotiation support to major ACAT programs
  - Provide Technical Support on IR&D expenses
  - Coordinate and merge Supply Chain proposal pricing

- **MAJOR PROPOSAL PRICING AUGMENTATION (NON-ICAT CMOs)**
  - Just–in-Time support on O/H and CAS issues at non-CACO/DACO locations
  - Provide surge capability from across DCMA to enhance supply chain proposal pricing quality and timeliness

ICAT: *Intensive* business and technical pricing support at major contractor locations

Non-ICAT: *Surge* support on all major proposals throughout Agency

Training: More *capable* DCMA pricing work force

CBAR: *Real-time* business information for contractors’ forward pricing rates, cost accounting standards issues and business systems status.

CACO/DACO Realignment: Building *consistency* in overhead and business system decisions at all major contractor locations

Better pricing support for you!
Proposal Pricing Group Overview
Comprised of senior 1102 Price/Cost Analysts and 801 Engineers
- Engineers report to Director of Technical Pricing

- Workload consists of:
  - Overhead Should Cost Reviews
  - Mobile Pricing Surge Support
  - Specialized support on CAS & Overhead issues
  - Commercial Pricing – Commercial Item Determination & Price Reasonableness Recommendations
Annual should cost planning is initiated with each Component Acquisition Executive (CAE):

- Navy - Mr. Stackley
- Air Force - Dr. LaPlante (formerly)
- Army - Ms. Shyu (Ms. McFarland)

Letter sent from DCMA Director to each CAE in July requesting input on prospective overhead should cost review locations for the upcoming fiscal year – response due by September 30th.
Overhead Should Cost Reviews

FY 15 Should Cost Reviews Requested/Completed:

- **Air Force:**
  - Northrop Grumman Rolling Meadows
  - Sikorsky
- **Army:**
  - Sikorsky
  - Leidos
  - Lockheed Martin (MST)
  - Lockheed Martin (IS&GS)
- **Navy:**
  - Northrop Grumman Rolling Meadows
  - Sikorsky
- **Sierra Nevada Corp. (self-initiated)**
- **Northrop Grumman ES/Marine Systems Sunnyvale, CA**
  - OHSCR on major shipbuilding supplier to NAVSEA
  - Initiated based on June 2015 NAVSEA request
Increasingly focused on high priority efforts with potentially high return (*Timing is everything*)

Translating review results into actionable intelligence

- Preliminary conclusions:
  - Contractors generally underestimate business base significantly
    - This is the critical starting point for understanding and analyzing contractor indirect rate forecasts...conservative business base forecasts are typically largest driver of indirect rate variances
  - Escalation forecasts do not reflect OSD expectations
  - Overcapacity is costly and difficult to eliminate

- Way forward...Continue to focus on business base variability with leaner, more streamlined reviews
Business and Technical expertise to supplement CMO business and technical staff on major proposals:

- At non-ICAT contractor locations
- At ICAT locations as they are being phased in or when gaps/surges of expertise are required

- Specialized support on CAS and Overhead issues
ICAT Surge Support Efforts

- NGAS & GA-ASI, Palmdale, CA
  - Predator/Reaper CLS 2015, 2016
  - Triton LRIP 1
  - Global Hawk Sustainment
  - Global Hawk ROK
- LM/ULA, Denver, CO
  - SBIRS
  - EELV RL-68
  - EELV RL-10
  - Aerojet
- Boeing, St. Louis, MO
  - JDAM
- Sikorsky, Stratford, CT
  - H-60 Blackhawk
  - Bell, Ft. Worth, TX
    - UH-6
  - LM, Ft. Worth
    - F-16 UCAs & F-35 ECPs

Non-ICAT Surge Support Efforts

- Predator/Reaper CLS 2014
- EMALS
- P-8 Lots 4 & 5
- P-8 Lots 6 & 7
- C-130J
- C-17
- CH-47
- GMLRS
- BAE – DEWS
- Robertson Fuel Tanks
- Honeywell ePBL (early stages)
- Presidential Aircraft (early stages)
Commercial Item Group
Commercial Pricing Support

- DCMA is the executive agency responsible for the creation of a "cadre of experts" within DoD for commercial pricing procurements under the National Defense Authorization Act.
- Team provides direct support on commercial item determinations and evaluating price reasonableness to the military services, buying commands, Defense Logistic Agency and to Administrative Contracting Officers.

Core Cadre located in St. Petersburg, FL provides:

- Training, analysis and other assistance to the buying commands and agencies, as well as internal DCMA ACO’s
- Direct PCO support for Commercial Item Determinations – Recommendations
- Market Analysis and Pricing Support
- Internal Cost & Pricing Center Technical Resources, with ability to leverage Navy Price Fighters as required
- Other Cost & Pricing Hubsites lend surge capacity as needed
Integrated Cost Analysis Teams (ICATs)
Where are ICATs located in DCMA?

- Bell Helicopter, Ft. Worth, TX
- Boeing Helicopter, Philadelphia, PA
- Boeing Defense and Space, St. Louis, MO
- General Electric Evendale, OH
- Lockheed Martin Aeronautics, Ft. Worth, TX
- Lockheed Martin Space Systems, Denver, CO
- Northrop Grumman Redondo Beach, CA/General Atomics La Jolla, CA
- Raytheon Missile Systems, Tucson, AZ
- Raytheon Defense Systems, Tewksbury, MA
- Sikorsky Aircraft, Stratford, CT
- United Launch Alliance, Denver, CO
DCMA in-residence proposal pricing team enhancements within CMOs

Centerpiece of DoD proposal pricing expertise and reliance

Dedicated teams established at 10 locations
- A single team comprised of business and technical personnel dedicated to all elements and facets of proposal pricing engagement

Cost Models
Labor Hour Estimating
Process
Interaction with DACO Team

Cost Estimating Relationships
Contractor Proposal Development
Historical Data Maintenance and Analysis
Special Added Emphasis on Supplier Proposal Evaluation

Goal: Knowing the Contractors Proposal Pricing Elements Better Than They Know it Themselves – Drive Cost Affordability and Cost Reliance for DoD
How Do ICATs Operate?

- Tailored Field Proposal Pricing Engagement to meet PCO proposal review and negotiation support needs
  - Full Proposal Evaluation – Or:
  - Rates and Factors Review Only
  - Technical Review Only
  - Subcontractor Review Only
  - Bill of Material Review Only
  - Arrange for Pricing Center and Navy Price Fighter “surge support”

- ICATs will also support their positions as part of the PCO negotiation team – when requested
How Can PCO Community Help ICATs?

- Major Proposal Forecast – Early involvement/notification of support requirements needed from DCMA
  - This will allow us to adequately plan for resources – some that may be required through mobile pricing support – or through the use of the Price Fighters

- It is our goal to support the concept of leveraging pricing resources across the Department to achieve both timely and a more thorough proposal evaluation.
Corporate and Divisional ACO Group Overview
Corporate and Divisional ACO Group

- Divisional ACOs and Cost Monitors realigned in 2012 under corporate aligned teams

- Created a dedicated agency core competency singularly focused on business and rate management issues:

<table>
<thead>
<tr>
<th>Indirect Rates</th>
<th>Pensions</th>
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<tbody>
<tr>
<td>Cost Accounting Standards</td>
<td>IR&amp;D/B&amp;P</td>
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<tr>
<td>Contractor Business Systems</td>
<td>Boards of Review</td>
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<tr>
<td>Disclosure Statements</td>
<td>Should Cost Reviews</td>
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</tbody>
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Consistent decisions within and across major companies

Career specialization, dedication, mentoring and succession
Expectations:

• Consistent decision-making on Business Systems approvals/disapprovals within and among companies

• Increased probability for achieving FPRAs through aggressive engagement on rates by dedicated rate professionals and managers

• Achievement of cost reductions through cost monitoring and enhanced oversight of critical cost drivers such as business base forecasting, analysis of direct labor rates, examination of fringe benefits, conduct of should cost reviews, understanding expectations of fixed/variable rates, comparative analysis between contractors in industrial sectors, and enhancing rate predictions through management of historical rate information.

• Structure facilitates mentorship to develop next generation of CACOs and DACOs
Data Analysis, Training, and Recruitment
Group Overview
• Serves as Cost and Pricing Center’s focal point for data collection and analysis as it relates to the pricing function, including the development and deployment of the Contract Business Analysis Repository (CBAR)

• Develops and fields introductory and specialized training in coordination with AQ; partners with DAU in course development and transition to College of Contract Management (CCM)

• Provides pricing technical assistance to the Operations Directorate, Central Region, and CMOs to include supporting Boards of Review, assisting in Corrective Action Plan creation, on-the-job training, and supporting workload surges

• Performs reviews of ICAT and non-ICAT CMO pricing cases to increase knowledge of laws, regulations, policies, processes, and analytical techniques required to perform cost and price analysis
DCMA serves as the DoD focal point for the development and deployment of the Contract Business Analysis Repository (CBAR)

DoD Repository of information to help prepare Procuring Contracting Officers (PCOs) for negotiations and get a better deal for the government

Established per the Director, Defense Pricing – Mr. Shay Assad

Obtain information about a contractor to determine if a company is responsive to the Government’s business system requirements

Available 24/7 via a secure web-based application

Now over 10,000 Users!
Types of DCMA Information in CBAR

- Direct and Indirect Rates
- Forward Pricing Rates
  - Agreements (FPRAs)
  - Recommendations (FPRRs)
  - Indirect Expense History
  - IR&D and B&P data
  - Cost Estimating Relationships
- Status of Business Systems
- Cost Accounting Standards Status
  - Disclosure Statement & Non-compliances
  - Business clearance records
Defense Pricing Memo dated March 12, 2013

- All sole source negotiated actions exceeding $25M starting June 24, 2013
- All sole source negotiated actions exceeding $100M from Oct 01, 2012 – June 23, 2013
- Policy for business clearance records applies to actions negotiated by all contracting officers -- PCOs and ACOs
- FAR Part 12 & 15 negotiated actions are input into the system
- Absolute value of action is used to determine need for inclusion when debit & credit actions are involved

Business Clearance records will be created for actions regardless if administered by DCMA
Current Agencies/Services Using CBAR

<table>
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<th>Agency/Service</th>
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<tbody>
<tr>
<td>Air Force</td>
<td><strong>Federal Aviation Administration</strong></td>
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<tr>
<td>Army</td>
<td><strong>GSA</strong></td>
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<tr>
<td>Defense Advanced Research Projects Agency</td>
<td>Missile Defense Agency</td>
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<tr>
<td>Defense Commissary Agency</td>
<td><strong>NASA</strong></td>
</tr>
<tr>
<td>Defense Contract Audit Agency</td>
<td>National Geospatial-Intelligence Agency</td>
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<tr>
<td>Defense Finance &amp; Accounting Service</td>
<td><strong>National Oceanic and Atmospheric Administration</strong></td>
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<tr>
<td>Defense Information Systems Agency</td>
<td>National Reconnaissance Office</td>
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<td>Defense Logistics Agency</td>
<td>Navy</td>
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<tr>
<td>Defense Security Cooperation Agency</td>
<td><strong>OSD (IG, CAPE)</strong></td>
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<tr>
<td>Defense Threat Reduction Agency</td>
<td>US Special Operations Command</td>
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<td><strong>Department of State</strong></td>
<td>US Transportation Command</td>
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<tr>
<td>Department of Homeland Security</td>
<td>Washington Headquarters Services</td>
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<td><strong>Department of the Interior</strong></td>
<td><strong>US Coast Guard</strong></td>
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**Agencies in Blue are not DoD organizations**
Financial Capability Group Overview
Financial Capability Group (FCG)

- FCG has sole responsibility for performing financial capability reviews for DoD:
  - Pre-award financial capability reviews
  - Post-award financial capability reviews
  - Financial capability reviews performed within the framework of DoD Industrial Capability Assessments

- Pre-award financial capability reviews:
  - FCG assesses prospective contractors’ ability to meet financial requirements in solicitations by gauging if existing financial resources and demonstrated financial capability are sufficient for successful contract completion
  - FCG provides award/no-award recommendation upon completion

- Post-award financial capability reviews:
  - Performed on contractors that have already received a DoD contract
  - FCG self-initiates post-award financial capability reviews on large DoD contractors given the prominence of these contractors in the defense community
  - Assess contractors’ ability to meet its current sales backlog as well as its projected future sales
  - FCG provides a contractor financial risk rating upon completion
  - FCG also performs debt deferment reviews when existing financial capability reviews are > 12 months

- Industrial Capability Assessments conducted by DCMA Industrial Analysis Center (IAC):
  - Performed to assess the health of an array of contractors that comprise a particular segment of the defense industry (satellites, missiles, etc.)
  - FCG provides contractor financial risk ratings to IAC
Takeaways

• DoD overarching strategy to rebuild pricing capability that supports Better Buying Power is working

• The strategy relies on demands from USD AT&L for more rigorous buying office analysis – and DCMA field pricing support is a key component of this more robust capability

• Pentagon expectations are increasing demand for thorough, comprehensive and timely cost analysis

• DCMA is delivering through ICATs, mobile pricing surge support, Overhead Should Cost reviews, and the commercial pricing team

• CBAR provides essential information; Corporate and Divisional ACO Group is the frontline in obtaining solid forecasts of costs, adequate Business Systems