

Government Contracts Blog

March 16, 2011 by Sheppard Mullin

DCMA Updates Forward Pricing Rate Recommendation Policy

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On January 11, 2011, Ronald Youngs, Acting Executive Director, Contracts, Defense Contract Management Agency (“DCMA”), issued Information Memorandum No. 11-108 regarding Forward Pricing Rate Recommendations (“FPRR”). This memorandum implemented a mandate included in the September 14, 2010 memorandum of Ashton B. Carter, Under Secretary of Defense for Acquisition, Technology & Logistics, entitled “Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending.” In an attempt to reduce the overlap between DCMA and the Defense Contract Audit Agency (“DCAA”), Mr. Carter directed that “where DCAA has completed an audit of a particular contractor’s [Forward Pricing Rate Proposal (“FPRP”)], DCMA shall adopt the DCAA recommended rates as the Department’s position regarding those rates.”

To implement this requirement, DCMA has updated its policy regarding FPRR development as follows.

- When a contractor submits a new FPRP, the Administrative Contracting Officer (“ACO”) will review the proposal and may issue a new FPRR according to the guidelines in Paragraph 6 of the FPR Instruction (discussing the development of pre-negotiation objectives). After issuing a new FPRR, the ACO will inform DCAA of any new information that may impact the rates or the FPRP audit. If the FPRP has significant changes that require a new audit, DCMA will issue a FPRR pending receipt of the audit report.
- If the DCAA approves of the FPRP, the ACO will review the DCAA audit report with 5 days of receipt, and adopt the DCAA approved rates immediately thereafter.
- If the DCAA finds the FPRP problematic, the ACO and DCAA will work together to obtain data from the contractor concerning any unsupported costs. The ACO will also provide DCAA with a written opinion concerning these costs to accompany the FPRR memorandum.

- In the “rare circumstances” where the ACO notes significant deficiencies in the audit report, the ACO will immediately contact DCAA to coordinate a revision to the recommended rates. If the ACO and DCAA cannot resolve these deficiencies, the issue will be elevated to the Contract Management Board of Review.
- The ACO will continuously monitor the validity of all recommended rates, and where the ACO determines that the current rates require revision, the ACO and DCAA will determine the rate impact prior to issuing a new FPRR.

In sum, the authority of DCAA is now paramount in the establishment of FPRRs where DCMA serves as the contract administration office.^[1] This clearly continues the ongoing diminishment in the discretion and prerogatives of contracting officers, who now are reduced to “rubber stamping” DCAA’s determinations. After all, DOD has already determined, has it not, that it will be the “rare circumstance” in which DCAA commits an error in its audit report? And how many contracting officers are going to be willing to take on DCAA in the face of that predetermination?

At this juncture, one is left to question, quite frankly, the value of dialogue between contractors and their ACOs in the realm of pricing. Contractors and contracting officers once were able to “reason together” to resolve differences on pricing issues. But as Chad and Jeremy sang some four decades ago, “that was yesterday, and yesterday’s gone.”

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^[1] For more discussion of the assault on contracting officer independence and the increasing power of DCAA, see “[Top Ten Reasons DCAA Should Let COs Do Their Bloody Job.](#)”