DCMA Pricing Update

Maj Gen Malishenko
DCMA Director

June 6, 2000
DCMA Pricing Update

Discussion Topics

- Agency Update
- CASB Review Panel
- Paid Cost Rule
- Price-based Acquisition Study
- DSB Task Force
  - Profit Policy
  - Financing Policy
  - Restructuring
- Performance Measures (Closeout & UCAs)
- Parametric Estimating
Vision
- DCMA People Teaming to Provide World Class Contract Management Services

Mission
- Provide Customer Focused Contract Management Services, Throughout the Acquisition Life Cycle-Around the Clock, Around the World.

Goals
- Deliver Great Customer Service
- Lead the Way to Efficient and Effective Business Processes
- Enable DCMA People to Excel
People
- People are the foundation of our success and our most valuable asset

Service
- One focus: Customer focus

Excellence
- Doing things right the first time

Integrity
- Operating with the highest standards of ethical conduct

Innovation
- Seeking improvements that add value to our customers
### Customer Workload

<table>
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<tr>
<th>POM</th>
<th>FY 98</th>
<th>FY 00</th>
<th>FY 01</th>
<th>FY 02</th>
<th>FY 03</th>
<th>FY 04</th>
<th>FY 05</th>
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**ULO ($Bs)**

- **Workload**
- **FTE**

**Graph**: Line chart showing trends in ULO (Uplink Operational Level) and FTE (Full-Time Equivalent) from FY 98 to FY 07. The chart includes data for POM 98, POM 99, and POM 00.
Service Sets--What We Do for Our Customers

- Pre-Contractual Advice Services
- Major Program Services
- Risk Assessment Services
- Product Support Services
- Delivery Services
- Pricing/Modification Services
- Bus & Fin Systems Services
- Flight Ops Services
- Payment & Fin Mgmt Services
- Contract Closeout Services
- Services Support
- Organizational Support

Integrated Management System Framework

One Book Process Definition

- PLAS Reporting by Process
  - Right Item
  - Right Time
  - Right Price

Activity Based Management

Command-wide Performance Contracts

Accountability for results
Panel’s Recommendations

- Keep current $500,000 contract threshold  
  Done!
- Apply CAS after receipt of $7.5M contract  
  Done!
- Raise full coverage threshold to $50M  
  Done!
- Exempt FFP -- no certified cost/pricing data  
  Done!
- Waiver authority to contracting agencies  
  Done!
- Review of Standards  
  To begin soon?
- Remove CASB from OFPP  
  Still under consideration

Price-based Acquisition Study

Government/Commercial Buying Practices

- Key Principles
  - Trade-offs - Cost, Schedule, Performance trade space
  - Competition - particularly on development programs
  - Risk Reduction - before development (incremental)
- Establishing Fair & Reasonable Prices
- “Agreeing on Contracts” - Performance Based & Incentives
- Shifting Progress Payments to Performance Milestones
Facilities Capital Employed
On average, 21% in FY97.
Up to 35-45% of profit objective in labor-intensive production contracts

- Encourages investment in defense-related capital assets
- Penalizes companies that consolidate and divest
- Limited incentive for improved performance and cost cutting measures

**Given current defense policy, does it make good business sense to invest in defense-related capital assets?**
Performance Based Payments

Benefits to suppliers include...

- up to 90% of contract price (progress payments limited to 75% of paid costs for large businesses),
- better cash flow whenever work is ahead of schedule (even in an overrun), and
- do not require an approved accounting system or compliance with MMAS.

FY98 Use of Performance Based Payments

Used in less than 1% of actions, accounted for 10% of dollars financed.

Need to make greater use of this form of financing.
Adequate Definition of Performance Events

Payment Schedule linked to Expenditure Profile (Advance Payments)

Schedule Risk - if high, may delay cash flow

DFAS Payment

- Progress payments easy, routine
- Performance based, complex, harder
Consolidation Issues

Program Risk from Consolidation at One Particular Facility

- Employee Relocation (50% expected to relocate, only 29% did)
- Lost Key Skills, (IT, Program Management)
- Cost/Schedule Impact
- Need DAE Program Impact Tolerance

Short Term Pain, Long Term Gain
This insight, and further “drill-downs” allowed us to work issues with the buying office for both parties’ benefit.
Parametric Cost Estimating

Where Parametrics can help us...

- Improve UCA definitization timeliness
- Facilitate price analysis for Price-Based Acquisition & Commercial Item Contracts
- Reduce reliance on supplier-furnished cost data

Our accuracy greatly improved during our second test

 Capability will be developed incrementally