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One of the more interesting metrics that can be used to measure the effectiveness of the Department of Defense’s contract management processes revolves around implementation of Forward Pricing Rate Agreements (FPRAs). According to the Federal Acquisition Regulations (at 2.101), a FPRA is—

… 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 parts provisioning, and material handling.

One can measure the length of time it takes to establish an FPRA, or the percentage of defense contractors that have successfully negotiated and executed FPRAs, or the number of those contractors who establish executed FPRAs as a percentage of the total number of contractors who submit Forward Pricing Rate Proposals with the intention of doing so. (Ideally, 100% of those who submit should eventually receive an executed FPRA.) There’s a number of good metrics in this area, and we like to imagine that DCMA management has established (and is vigilantly monitoring) them.

FPRAs are to the government’s benefit because, once established, they act to reduce the time and effort necessary to negotiate contract prices. DCAA has less to audit when the contractor simply submits the agreed-upon forward pricing rates, and DCMA can point to the agreement as evidence that the rates are fair and reasonable. Consequently, the contractor gets put under contract faster and the work starts earlier than it otherwise would have. Deliveries can be scheduled faster and the contractor puts people to work and starts earning revenue faster. Everybody wins!

Establishing FPRAs has been a problem in recent years, for two primary reasons. One, DCAA has gotten tougher and more exacting in its audits of contractor FPR proposals. Two, DCMA has gotten more bureaucratic and less flexible in the granting of discretion to Administrative Contracting Officers. We explored the situation in **this article** .

DCMA has been fighting itself on the issue of negotiating and executing FPRAs. On one hand, DCMA Director Charlie Williams, Jr. **told** his Contract Management team that---

At contractor locations where we have determined it is in the government's interest to establish forward pricing rates, we should be continuously evaluating the rates and the individual pool and base elements that comprise them. In other words, I expect you to be as knowledgeable if not more so than anyone else with respect to the contractor's rate structures and methodologies so you can provide expert advice based on fact. …

And on the other hand, Mr. Williams' Contract Management team told Government Accountability Office auditors that DCMA **has lost** its ability to conduct cost and price analysis. DCMA personnel told GAO that—

Loss of this skill set, according to DCMA, meant that many of its pricing-related contract administration responsibilities, such as negotiating forward pricing rate agreements and establishing final indirect cost rates and billing rates, were no longer performed to the same level of discipline and consistency as in prior years.

So, other than DCAA taking forever and a day to issue audit reports (and filling those audit reports with metric tons' worth of questioned costs), and DCMA taking forever and a day to evaluate those audit reports, obtain Review Board approval to negotiate forward pricing rates, conduct negotiations, obtain agreement, obtain Review Board approval on the agreed-upon rates, prepare a FPRA and obtain the necessary signatures, everything's going just fine in this area.

Yes, sirree. Just fine.

Now, to assist the DCMA Contracting Officers with their evaluations, DOD Director of Pricing, Shay Assad, issued **this memo** calling upon the DOD buying activities and military service personnel to participate in contractor out-year business base reviews. Mr. Assad wrote—

Historically, unreliable forecasting of the [contractor's] 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 can no longer afford to have this situation continue.

Because DCMA and the contractor cannot agree on the contractor's business base three to five years in the future, Mr. Assad requested the participation of "each Service in the analysis of the business base described in our contractor forward pricing rate proposals." DCMA reviewers "will require support from the buying activities and program office(s) doing business with that contractor."

Well, there you have it, folks. DCMA is going to improve the FPRA evaluation process by adding more reviewers to the evaluation process. That's going to streamline things!

Seriously, this is going to be a good thing for the small-to-middlin' contractors that work primarily with one agency or just have a few contracts. It's probably going to improve the process for those entities. But for the Top 20 DOD contractors—the ones with hundreds of contracts performed at multiple segments for many buying activities across numerous geographic regions—we predict it's going to bring the already too-slow process to a full stop.