White Paper

Section 830 FY17 NDAA

Pilot Program for Foreign Military Sales

Department intends to establish a Pilot program to reform and accelerate the contracting and pricing processes associated with Full Rate Production (FRP) of weapon systems. The goal is to achieve a 90% reduction in time to get FMS (only) buys on contract. This pilot does not extend to the services. A secondary objective is to save on Bid & Proposal costs.

Up to 10 pilots are authorized per the legislative authority and companies have the option of participating.

Participating companies will unilaterally develop a model based on their unique systems that should reflect their ability to predict costs based on historical actual costs. The Government will not participate in the development of the model, but a small Government team of subject matter experts will review the model within 30 days of submission. If the model is effective in estimating costs with accuracy, the results will be placed on contract. Members of the government team may include: Director, DPAP, Director, Defense Pricing and other DPAP staff, as well as representatives from CAPE, DCAA, and DCMA.

If the model does not predict within 3-4% of expected costs, contract type shall be FPIF with a conversion to FFP upon 30 days after final delivery (companies can get a certificate from their accounting firm that there are no unallowable charges in their actual costs). Subcontractors/suppliers would also be required to develop a model in order to save time on schedule, since evaluating a proposal would negate a lot of the time savings. FPIF would flow down to suppliers who do not meet the 3-4% projection parameters. The government team would also review/evaluate the subcontractor models as needed depending on how much information is being shared between prime and sub.

All companies who participate in the pilot program are subject to the same incentive structure under the FPIF contract strategy including: 13.5% target profit, 116% ceiling, and a split share ratio of 20/80 underrun, 70/30 overrun.

Any costs that cannot be captured in the model based on actuals, e.g. nonrecurring, will have to be accounted for outside the model (with supporting data).

This is a DOD led pilot and all questions/issues should go to Mr. Assad and Ms. Grady, Directors of Defense Pricing and DPAP.