



**DEPARTMENT OF DEFENSE**  
**Defense Contract Management Agency**

**ANNEX**

**Technical Support to Indirect Costs  
(TSI)**

**Engineering and Analysis Directorate**  
**CPR: DCMA-EA**

**DCMA-ANX 213-02**  
**August 6, 2013**

*Validated Current with Administrative Changes, August 7, 2014*

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**1. PURPOSE.** This Annex:

- a. Supplements DCMA Instruction (DCMA-INST) 213, “Technical Pricing Support” (Reference (a)).
- b. Provides direction for performing Technical Support to Indirect Costs (TSI) activities with References (a) through ~~(j)~~ **(k)**.
- c. Is established in compliance with DoD Directive 5105.64 (Reference (b)).

**2. APPLICABILITY.** This Annex applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence (e.g., DCMA International and Special Programs activities).

**3. MANAGERS’ INTERNAL CONTROL PROGRAM.** In accordance with DCMA-INST 710, “Managers’ Internal Control Program” (Reference (c)), this Annex is subject to evaluation and testing. The process flowchart is located at Appendix A.

**4. RELEASABILITY – UNLIMITED.** This Annex is approved for public release.

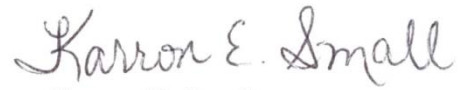
**5. PLAS CODE.**

- a. Process: 041 – Pricing and Negotiation.
- b. Programs: ACAT/Other customers (when applicable).
- c. Other National; Training and Travel; Local Programs (when applicable).

**6. POLICY RESOURCE WEB PAGE.** <https://home.dcma.mil/policy/213-02r>

August 6, 2013

**7. EFFECTIVE DATE.** By order of the Director, DCMA, this Annex is effective immediately.

A handwritten signature in cursive script that reads "Karron E. Small".

Karron E. Small  
Executive Director  
Engineering and Analysis

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## REFERENCES

- (a) DCMA-INST 213, “Technical Pricing Support,” April 3, 2013
- (b) DoD Directive 5105.64, “Defense Contract Management Agency (DCMA),” January 10, 2013
- (c) DCMA-INST 710, “Manager’s Internal Control Program,” *April 21, 2014*
- (d) Federal Acquisition Regulation (FAR) 31.201-2, 3, 4 “Determining Allowability, Reasonableness, Allocability”
- (e) DCMA-INST 130, “Forward Price Rates ~~Agreement~~,” *July 21, 2014*
- (f) FAR 31.205-18 “Independent Research and Development and Bid and Proposal Costs”
- (g) Defense Federal Acquisition Regulation Supplement (DFARS) 231.205-18 “Independent research and development and bid and proposal costs”
- (h) DFARS 215.404-71-5 “Cost efficiency factor”
- (i) FAR 31.205-17 “Idle Facilities and Idle Capacity Costs”
- (j) FAR 31.205-25, “Manufacturing and Production Engineering Costs”
- (k) DCMA-INST 123, “Cost Monitoring,” *August 14, 2013*

## CHAPTER 1

### OVERVIEW

**1.1. OVERVIEW.** This Annex serves as supplemental guidance to DCMA-INST 213, “Technical Pricing Support” (Reference (a)) in the area of Technical Support to Indirect Costs (TSI). The intent of TSI is to:

1.1.1. Provide timely, high-quality technical pricing support (TPS) in the area of indirect costs to the administrative contracting officer (ACO) or cost monitoring specialist (CMS) during the analysis of forward pricing rate proposal (FPRP) and cost monitoring efforts. TSI will follow the negotiated priority set by the ACO or CMS. The Agency’s intent is to assign priority support for the three major areas of indirect costs:

- Business Base
- Independent Research and Development
- Cost Estimating Relationships

1.1.2. Promptly acknowledge receipt of TSI requests.

1.1.3. Promptly conduct a preliminary review of the detailed TSI request to determine completeness with pertinent supporting data that justifies the contractor’s proposed rates. Notify coordinating divisional administrative contracting officer (DACO)/corporate administrative contracting officer (CACO) or ACO if the TSI package is incomplete. The assumption is that all TSI requests will pass through the ACO, even technical-only requests from outside agencies. Technical-only requests are understood to be requests for technical support of indirect costs only, and no additional contract management office (CMO) support is needed. (**NOTE:** ACO, as used in this Annex, refers to the CACO, DACO, or ACO. Also, the word requestor identifies the ACO and the CMS. In many cases, the request for technical analysis will come from the CMS as delegated by the ACO. In other cases, external request from the program office or the Defense Contract Audit Agency will provide TSI requests.)

1.1.4. Complete TSI analysis and provide a report to the requestor within the negotiated due date in order to minimize delay to procurement actions.

1.1.5. Support cost monitoring efforts, as requested.

## **CHAPTER 2**

### **RESPONSIBILITIES**

**2.1. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR.** The CMO commander/director shall ensure compliance with this Annex.

**2.2. CMO ENGINEERING AND ANALYSIS (E&A) DIRECTOR/TECHNICAL GROUP CHIEF/TECHNICAL LEAD (INTEGRATED COST ANALYSIS TEAM (ICAT) DIRECTOR AT ICAT CMOs).** The CMO E&A Director/Technical Group Chief/Technical Lead (ICAT Director) shall designate a single TSI coordinator to manage all TSI requests. For CMOs with programs that do not overlap use of resources, it is acceptable to assign a coordinator for each program.

**2.3. TSI COORDINATOR.** The TSI coordinator shall:

2.3.1. Acknowledge TSI requests using alternate methods, such as email, for documenting cases until such time that an eTool or another system of document control (safe system with built-in redundancy to prevent single point of failure loss) is provided. TSI requests received directly from sources external to DCMA, or via the technical specialist, must be routed to the ACO for coordination.

2.3.2. Identify necessary functional support for the completion of the TSI request, coordinate support with appropriate supervisors/leads, and convey the support and deadline requirements to the technical team.

2.3.3. In the event the deadline is not feasible, recommend and negotiate a new suspense date with the requestor.

2.3.4. Ensure appropriate supervisor/lead reviews and approves all technical reports. Approval shall be completed prior to formal release of analysis.

2.3.5. Submit approved report to the requestor.

2.3.6. Document completion of TSI report using alternate methods, such as email, for documenting cases until such time that an eTool or another system of document control (safe system with built-in redundancy to prevent single point of failure loss) is provided.

**2.4. TECHNICAL SPECIALIST.** The technical specialist (e.g., engineer, industrial specialist, quality assurance representative) shall:

2.4.1. Review TSI package for completeness per the written detailed request from the requestor.

2.4.2. Complete analysis for the areas detailed in the TSI request.

- 2.4.3. Maintain work papers, including electronic documents to support the analysis.
- 2.4.4. Prepare and sign a well-documented TSI report that incorporates the analysis and technical recommendations.
- 2.4.5. Provide final report to the TSI coordinator.
- 2.4.6. Route all external TSI requests to the TSI coordinator.

## **CHAPTER 3**

### **PROCEDURES**

**3.1. RECEIVE AND COORDINATE TSI REQUESTS.** TSI requests should be received using alternate methods, such as email, for documenting cases until such time that an eTool or another system of document control (safe system with built-in redundancy to prevent single point of failure loss) is provided. The TSI coordinator shall promptly acknowledge requests. The request should be detailed and precisely identify what aspects of the FPRP, or other areas of indirect costs, need to be evaluated.

3.1.1. The scope of the request shall be reviewed by the TSI coordinator. The TSI coordinator shall identify all functional areas necessary to complete the analysis and coordinate support with the appropriate leads/supervisors.

3.1.2. The TSI coordinator shall clearly specify the due date necessary to accommodate the technical evaluation and a supervisory/lead review and approval of the final report within the overall schedule.

3.1.3. If resources are not available or unable to support the requested timeline, the ACO or CMS will set the priority and an adjusted completion date will be negotiated between the TSI coordinator and the requestor.

### **3.2. PERFORM DOCUMENTATION CHECK FOR ADEQUACY AND COMPLETENESS.**

3.2.1. The TSI package shall include the analysis request, a copy of the FPRP or special review documentation as part of a cost monitoring effort, and supporting documentation compiled and reviewed by the requestor. If pertinent documentation is missing, the technical specialist should request them from the requestor. The analysis request generally includes, but is not limited to:

- Requestor proposal review approach
- Review team members
- Analysis requirements and due dates
- Other pertinent information related to conducting the review

3.2.2. The technical specialist shall perform a review of the contractor data provided to support the rationale and estimates within the TSI request to determine allowability, reasonableness, and allocability per Federal Acquisition Regulation (FAR) 31.201-2, 3, 4 (Reference (d)). This review should allow for adequate time to request additional details from the contractor. Per local guidance, the technical specialist may request needed data during a fact-finding session with the contractor or via the locally approved process for requesting information, provided one exists.

3.2.2.1. When request for information and exchanges with the contractor are



conducted, they should be coordinated with the requestor. Other evaluation team members should be invited, as appropriate. Following the meeting, ensure that any pertinent information provided by the contractor is documented in a memorandum of record or similar means. The resulting data/understanding should also be sent to the contractor representative to make sure there are no disagreements relative to what information was provided and/or to document what additional information needs to be provided.

3.2.2.2. When requesting information, local guidance should dictate the appropriate method/format, if applicable. Information exchanges and meeting minutes/action items shall be documented and provided to the requestor and copied to the contractor for their awareness and to include in the permanent file.

3.2.3. A walk-through should be conducted for each contractor FPRP review. This review should be coordinated by the requestor and all proposal review team members. Refer to DCMA-INST 130, "Forward Price Rate Agreements" (Reference (e)), for additional information. The walk-through is a valuable method for gaining the necessary understanding of the contractor's data. Efficient use of time and resources is necessary to ensure deadlines are met and engineering solutions provided.

### **3.3. CONDUCT TECHNICAL ANALYSIS OF INDIRECT COSTS.**

3.3.1. The objective of technical analysis of the indirect costs is to provide sufficient information and insight into a contractor's proposed costs to assist the ACO to negotiate fair and reasonable rates, and for the execution of a timely forward price rate agreement and for the development of recommended rates.

3.3.2. The technical analysis of an FPRP shall be consistent with the detailed request. All requested areas shall be addressed in the analysis and subsequent report. Analysis and recommendations should be based on facts and quantitative data. The technical analysis will assess a wide range of costs, cost factors, and other associated information in support of an FPRP evaluation. Areas of review may be the contractor's business base, independent research and development (IR&D) efforts, cost estimating relationships (CER), cost estimating systems or business systems (dependent upon contractual obligations), depreciation (capital equipment and facilities), proposed contractor cost reduction initiatives, and other areas identified by the requestor. These analyses and reviews span a number of cost considerations and cost elements and may include analysis of labor hours and labor categories provided within the allocation bases used to develop certain rates proposed within the FPRP, scrutinizing costs associated with proposed capital purchases and upgrades, assessing information technology (IT) requirements and costs, analyzing facility capacities for reasonableness and possible excess, and evaluating the contractor's estimates of current and future workloads.

3.3.3. Technical Analysis of Business Base. Evaluate project schedules and the direct costs associated with those schedules to determine the reasonableness of the business base proposed, and review the scope of work included in the business base for applicability to the related cost pool. Determine if the business base accurately reflects the projected costs for the forecasted level of direct work proposed for each of the projects included under the base, as

measured in labor dollars, labor hours, materials, or other direct costs by program by year. The business base forecast contains each of the allocation bases used for all of the indirect rates found in the contractor's FPRP.

3.3.4. Technical Analysis of Independent Research and Development and Bid and Proposal (IR&D/B&P). Determine that IR&D costs proposed are of potential interest to DoD, allowable as set forth in the FAR 31.205-18 and Defense Federal Acquisition Regulation Supplement (DFARS) 231.205-18 (References (f) and (g)) and not allocable to another cost category. B&P costs may also be considered in the overall allowability analysis as identified in DFARS 231.205-18 (Reference (g)).

3.3.4.1. For contractors with a large number of IR&D projects, consider a sample of IR&D projects to be selected based on the dollar value of the projects, and the level of cost risk the projects present to the Government. Specific projects may also be selected as part of the review by the requestor.

3.3.4.2. Review the project scope to ensure proper classification of the effort as qualifying IR&D. Ensure the project effort does not include required tasks already being completed for another contract.

3.3.4.3. Cost reasonableness of forecast IR&D costs can be evaluated based on:

- Forecast business volume
- Nature and size of the programs that the contractor has included in its projected sales base
- Relevance of the proposed IR&D costs to projected Government programs
- Likelihood of those programs continuing at the levels forecast

3.3.5. Technical Analysis of Cost Estimating Relationships (CER). The objective of performing technical analysis on a CER is to ensure that the CER is valid and appropriate for the cost the CER is being used to estimate.

3.3.5.1. Determine if the CER demonstrates:

- Logical relationship between the cost being estimated and the independent variable
- Data being used is verifiable
- CER projects costs with reasonable degree of accuracy

3.3.6. Evaluating Contractor's Cost Estimating System (CES). The objective of performing a technical analysis of a contractor's CES is to determine a contractor's ability to consistently produce well supported proposals that are acceptable as a basis for the negotiation of fair and reasonable prices. Using an acceptable estimating system is a key to consistently preparing quality estimates which are both accurate and reliable. The Government and contractor both benefit from a contractor having an acceptable estimating system.

3.3.6.1. The technical specialist's main task is to report any contractor estimating issues found during the normal course of business or while participating in a formal cost estimating system review. This should be accomplished by using the following techniques with respect to the technical evaluation of labor, material, and other direct costs:

3.3.6.1.1. Review and determine if the contractor's cost estimating policies and procedures are reasonable and sound.

3.3.6.1.2. Compare past estimates with actual data to determine the accuracy of the contractor's estimating methods.

3.3.6.1.3. Review proposals and basis of estimate to determine if the contractor is consistently applying estimating methods and techniques.

3.3.7. Technical Analysis of Proposed Contractor Cost Reduction Initiative. This analysis is to determine if the contractor's cost reduction initiatives are appropriate to meet the criteria identified in DFARS 215.404-71-5 (Reference (h)) and to assess whether a contractor's estimate of the cost saving projections from the future implementation are reasonable. During the cost monitoring process (see paragraph 3.4 of this document), the technical specialist shall determine if, after a cost reduction initiative has been implemented, the savings have been achieved. As part of an FPRP evaluation, the technical specialist will evaluate the contractor's cost reduction initiative justification to analyze its baseline for accuracy and provide technical recommendation of acceptableness.

3.3.8. Technical Analysis of Facility Costs. A technical analysis or evaluation of facility costs may include idle facilities, idle capacity, plant rearrangement, rental costs, depreciation (capital equipment and facilities), information technologies, and any other requests for a technical analysis of indirect costs from the requestor. When specific facilities or equipment are not identified by the ACO, statistical sampling techniques may be used to validate status. Document the methodology of analysis in the TSI report.

3.3.8.1. Indirect costs related to idle facilities and idle capacity can be found in FAR 31.205-17 (Reference (i)). The technical specialist shall identify the status and use of the facilities identified by the requestor.

3.3.8.2. Plant rearrangement costs are discussed in FAR 31.205-25 (Reference (j)). The technical specialist shall review the proposed and/or verify the existing change is as described by the contractor.

3.3.8.3. A technical evaluation of a contractor's asset depreciation (capital equipment and facilities) shall be conducted to ensure the depreciated tangible and intangible assets are credible and relevant. Asset inventory lists should be checked to validate the status of the asset and to ensure that asset retirements have been properly accounted. The technical specialist shall review milestone schedules and project progress. When depreciation expense is tied to a particular project, evaluate the project's status and the percentage of work completed on the project. A capital improvement plan asset or capital work in progress asset which is not

completed may not be depreciated until the asset is placed in service.

3.3.8.4. IT shall be reviewed to determine reasonableness for DoD usage. Areas to focus are:

- Need for proposed projects
- Purchases
- Level of current IT needs

**3.4. PROVIDE TECHNICAL SUPPORT TO COST MONITORING EFFORTS.** The technical specialist serves as a key member of the cost monitoring team (CMT). The technical specialist's primarily reviews and evaluates any areas identified by the CMS where technical expertise is required to determine the effectiveness, necessity, or efficiency of the contractor's operations. To be an effective member of the CMT, the technical specialist shall work with the CMS to understand what is required of them during the cost monitoring effort and to establish a comprehensive understanding of the contractor's organizational structure, history of sales, system of budgeting, collecting, and assigning costs. Where time and manpower constraints exist, analysis should be limited to areas where technical review focuses on cost and risk, and areas yielding the most productive results. See the DCMA-INST-123, "Cost Monitoring" (Reference (k)) for additional guidance. All cost monitoring efforts requiring technical support will be requested via the TSI request method.

### **3.5. PREPARE TSI REPORT.**

3.5.1. The technical specialist shall prepare a well-documented TSI report incorporating the findings and recommendations of all FPRP and cost monitoring areas reviewed.

3.5.1.1. The technical specialist shall follow local policy and guidance on report format, if applicable; however, the report shall be a standalone document by reiterating the proposed information, followed by the specialist's recommended government position, and the basis of analysis leading to that position. When stating the supporting analysis, be mindful the audience using the report is likely non-technical. The detailed work documents papers, including electronic documents, may be in any format and shall be retained in the official file.

3.5.1.2. The appropriate technical supervisor/lead shall review, approve, and sign the TSI report prior to release to the requestor. Review and approval may be coordinated by the TSI coordinator.

3.5.1.3. If the initial due date is revised or the report is submitted after the due date, the individual responsible for the report shall document the reasons for revising or missing the due date in the official file.

3.5.2. All technical reports and other pricing documents containing Government or contractor proprietary data shall be marked "For Official Use Only" or at a higher security level if mandated by the contract or solicitation.

3.5.3. The TSI report and any supporting documentation shall be sent to the ACO. Feedback on the adequacy and value of the report should be requested. If sending the TSI report completes the TPS case, the case shall be annotated by the TSI coordinator in the locally approved method for documenting cases until such time that an eTool or another system of document control (safe system with built-in redundancy to prevent single point of failure loss) is provided.

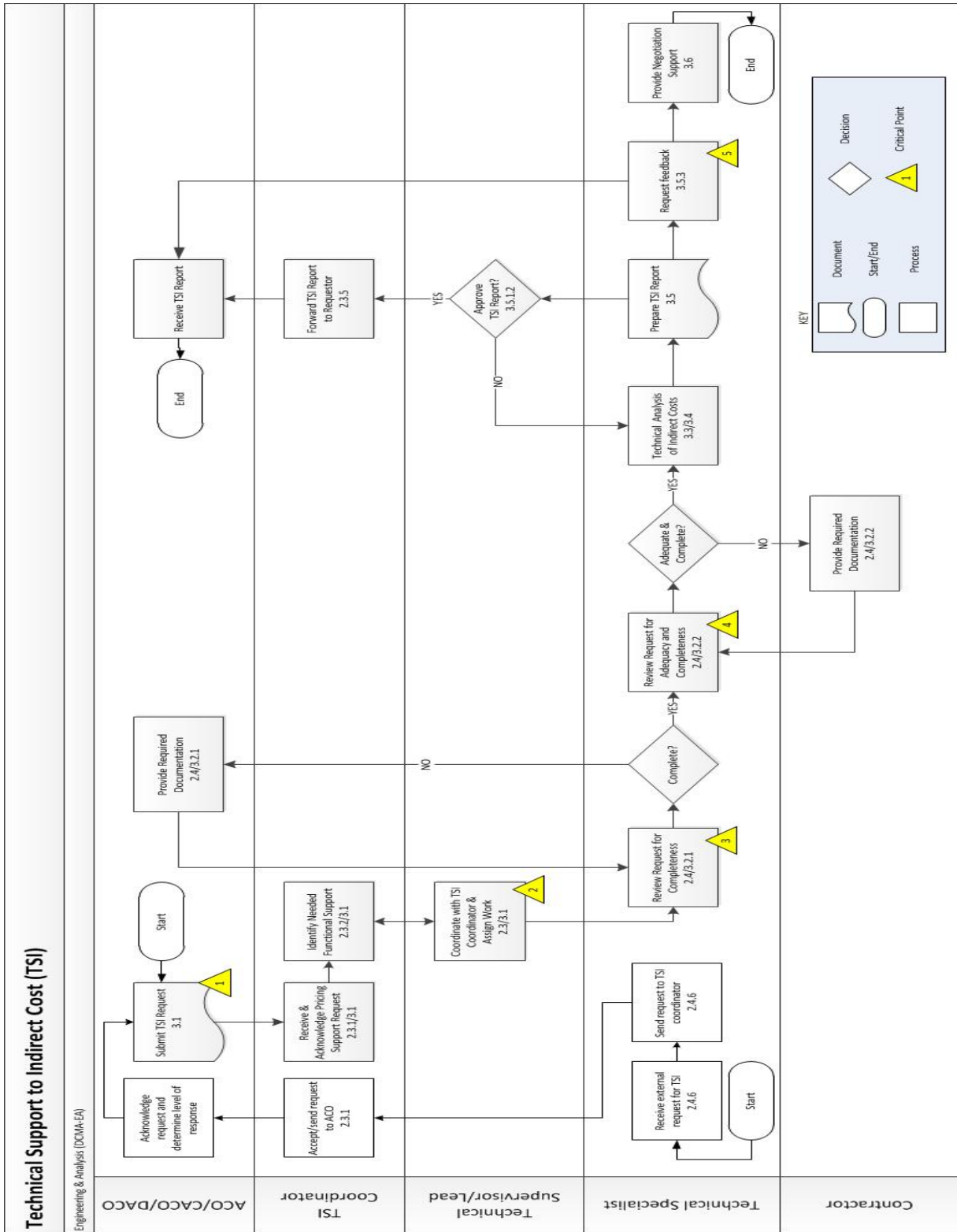
**3.6. PROVIDE NEGOTIATION SUPPORT.** When requested, the technical specialist shall support negotiations. Ad hoc support may be requested of the technical specialist who completed the analysis. Time consuming or more extensive negotiation support requests that would impact workload should be routed the same as a TSI request; using alternate methods, such as email, for documenting cases until such time that an eTool or another system of document control (safe system with built-in redundancy to prevent single point of failure loss) is provided.

## **APPENDIX A**

### **TSI Process Flow**

The TSI process flowchart is displayed below to illustrate the roles, responsibilities, and process for TSI. A larger version of this flowchart is provided on the resource page for this instruction and can be downloaded from there.

### TSI Process Flowchart



**Critical Control Points**

Key Control	Functional Area	Risk	Possible Controls
1	Requestor submittal of request support	Proper identification of areas needing technical evaluation and data needed for evaluation	-list all areas requiring a technical evaluation - provide all contractor data needed for evaluation - provide suspense date
2	Work assignment	Wrong selection of expertise, improper identification of priority, and overloading technical specialist	-understand group and individual work load -understand experience and knowledge levels -properly identify work priority and risk levels
3	Review Request (completeness)	Proper amount of data needed for evaluation	-ensure correct data is provided based on the type of evaluation to be performed
4	Review Request (accuracy)	Proper data needed for evaluation	-ensure the correct programs, projects, years of data are correct
5	Continuous Process Improvement	Type III error; perfect solution for the wrong problem	-ensure the solution provided meets the request. -receive feedback from requestor regarding quality and value the technical report provided or did not provide



## ACRONYMS

ACO	administrative contracting officer
B&P	bid and proposal
CACO	corporate administrative contracting officer
CER	cost estimating relationship
CES	Cost Estimating System
CMO	contract management office
CMS	cost monitoring specialist
CMT	cost monitoring team
CPR	component of primary responsibility
DACO	divisional administrative contracting officer
DCMA-INST	DCMA instruction
DFARS	Defense Federal Acquisition Regulation Supplement
E&A	Engineering and Analysis
FAR	Federal Acquisition Regulation
FPRP	forward pricing rate proposal
ICAT	integrated cost analysis team
IR&D	independent research & development
IT	information technology
PLAS	performance labor accounting system
TSI	technical support to indirect costs
TPS	technical pricing support