

**Supporting Statement**  
**OMB No. 0704-0232**  
**DFARS Subpart 215.4 - Contract Pricing**

**A. Justification**

**1. Requirement.** This extension of an information collection covers the following requirements in subpart 215.4 of the Defense Federal Acquisition Regulation Supplement (DFARS):

a. Facilities capital employed. DFARS 215.404-71-4, Facilities capital employed, requires the contracting officer to estimate the facilities capital cost of money and capital employed using DD Form 1861, Contract Facilities Capital Cost of Money (CFCCM). Contractors normally complete the DD Form 1861 and provide it to contracting officers as part of the contractor's cost or pricing proposal during the negotiation of contracts for supplies and services.

b. Cost estimating systems. DFARS 215.407-5, Estimating systems, and the clause at 252.215-7002, Cost Estimating System Requirements, require that certain large business contractors-

- Establish an adequate estimating system and disclose such estimating system to the Administrative Contracting Officer (ACO) in writing.
- Maintain the estimating system and disclose significant changes to the cost estimating system to the ACO on a timely basis.
- Respond in writing to written reports from the Government that identify deficiencies in the contractor's estimating system.

**2. Purpose.**

a. Facilities capital employed. It is DoD policy to encourage contractor investment in facilities, which may lead to increased productivity and reduced costs under DoD contracts through the use of modern manufacturing technology. To motivate aggressive capital investment, DoD rewards contractors by recognizing CFCCM and facilities capital employed when establishing the price of certain negotiated defense contracts, when such contracts are priced on the basis of cost analysis.

The contracting officer uses DD Form 1861 to record and

compute the contract facilities capital cost of money and capital employed, which is carried forward to DD Form 1547 for the purpose of developing a prenegotiation profit or fee objective on defense contracts whenever a structured approach to profit analysis is required by DFARS 215.404-4(b). The DD Form 1861 enables the contracting officer to differentiate profit objectives for various types of assets-land, buildings, and equipment. The DD Form 1861 provides a means of linking the Form CASB-CMF, Facilities Capital Cost of Money Factors Computation, and DD Form 1547, Record of Weighted Guidelines Application.

b. Cost estimating systems. The information regarding contractor cost estimating systems is used to determine if the contractor has an adequate system for generating cost estimates, which forecasts costs based on appropriate source information that is available at the time and to monitor the correction of deficiencies.

**3. Information technology.** A fillable electronic version of DD Form 1861 is available; no Public Key Infrastructure (PKI) is anticipated because a signature is not required. Information technology will be used to the maximum extent practicable to reduce burden. Where both the Government agency and contractors are capable of electronic interchange, contractors may submit this information collection requirement electronically. This information collection complies with the Government Paperwork Elimination Act, Pub. L. 105-277, Title XVII.

**4. Duplication.** As a matter of policy, DoD reviews the DFARS to eliminate unnecessary duplication. This request for information applies solely to DoD and does not duplicate any other requirement. Similar information is not already available to the Government.

**5. Small business.** The burden applied to small businesses is the minimum consistent with applicable laws, Executive Orders, regulations and prudent business practices.

**6. Consequences for noncollection.** Failure to collect the required information could significantly hinder the negotiation of defense contracts for supplies and services and/or impede contracting officers from performing their administrative functions regarding contractor cost estimating systems in an effective and efficient manner.

**7. Special circumstances.** Collection of the information does not require any of the special circumstances cited at 5 CFR 1320.5(d)(2).

**8. Public comments and consultation.** This information collection is consistent with the guidelines in 5 CFR 1320.5(d). In accordance with 5 CFR 1320.8(d), Public comments were solicited for 60 days in the Federal Register on November 8, 2013 (78 FR 67132). No comments were received. Public comments were solicited for 30 days in the Federal Register on January 13, 2014 (79 FR 2158). The Department did not directly receive any comment.

**9. Payment to respondents.** No payment or gift will be provided to respondents, other than remuneration of contractors under their contracts.

**10. Confidentiality.** This information is disclosed only to the extent consistent with prudent business practices, current regulations, and statutory requirements.

**11. Sensitive questions.** No sensitive questions are involved.

**12. Estimate of public burden.**

|  |          |                     |
|--|----------|---------------------|
| <b>a. Facilities capital employed.</b> |          |                     |
| Number of respondents                  | Note (1) | 10,000              |
| Responses per respondent               |          | 5.33                |
| Total responses                        | (2)      | <b>Total</b> 53,327 |
| Hours per response                     | (1)      | 10                  |
| Total response hours                   |          | 533,270             |
| Recordkeeping burden                   | (3)      | 0                   |
| Total hours - annual public burden     |          | 533,270             |
| Cost per hour                          | (4)      | \$30.75             |
| Total cost, annual public burden       |          | \$16,398,053        |

Notes:

(1) A DD Form 1861 is normally completed for each proposal for a contract for supplies or services that is priced and negotiated on the basis of cost analysis. However, no historical data is available as to the number of respondents submitting DD Forms 1861 to contracting officers, or the time required to complete the form. Therefore, the estimated number of respondents and hours per response were developed by DoD subject matter experts.

(2) The number of total responses was obtained using data from the report of Defense Prime Contract Awards by Size and Type of Contract as provided by the DoD Statistical Information Analysis Division, Defense Manpower Data Center.

(3) Recordkeeping burden is estimated at zero hours per action. The information necessary to complete the DD Form 1861 will be generated from data already contained in the contractor's recordkeeping and accounting systems.

(4) Based on GS-09, step 5 hourly rate (\$22.57) for calendar year 2013 and 36.25 percent burden (\$8.18), the fully burdened rate equals \$30.75 per hour.

b. Cost estimating system.

|                                  | <b>Initial</b> | <b>Change</b> | <b>Defic.</b> | <b>Total</b> |
|----------------------------------|----------------|---------------|---------------|--------------|
| Number of respondents (Note 1)   | 1              | 300           | 300           | 300          |
| Responses per respondent (2)     | 1              | .33           | .10           | .44          |
| Annual responses                 | 1              | 100           | 30            | 131          |
| Hours per response (3)           | 10             | 40            | 40            | 39.77        |
| Total hours                      | 10             | 4,000         | 1,200         | 5,210        |
| Cost per hour (4)                |                |               |               | \$44.59      |
| Total cost, annual public burden |                |               |               | \$232,314    |

Notes:

(1) We estimate a fairly stable population of approximately 300 respondents, with not more than one new respondent per year providing an initial response.

(2) We further estimate that of the 300 respondents, 30 percent may submit a change in a particular year, and 3 percent may submit an additional change within the year. We estimate that approximately 10 percent of the respondents will be cited for a deficiency in a year.

(3) The estimated 10 hours per initial submission response and 40 hours per change or deficiency response have remained unchanged from the previous submission.

(4) Based on GS-12, step 5 hourly rate (\$32.73) for calendar year 2010 and 36.25 percent burden (\$11.86), the fully burdened rate equals \$44.59 per hour.

c. Total annual public burden.

|                                     | <b>Total</b> |
|-------------------------------------|--------------|
| A. Number of respondents            | 10,300       |
| B. Responses per respondent (C/A)   | 5.19         |
| C. Total responses                  | 53,458       |
| D. Hours per response (E/C)         | 10.07        |
| E. Total response hours             | 538,480      |
| F. Cost per hour (G/E)              | \$30.88      |
| G. Total cost, annual public burden | \$16,630,366 |

**13. Estimated nonrecurring costs.** We estimate that there are no nonrecurring costs, i.e., capital and start-up, or operation and maintenance costs.

**14. Estimated cost to Government.**

|                                 | <b>Total</b> |
|---------------------------------|--------------|
| Total responses - Note (1)      | 53,458       |
| Hours per response - Note (2)   | 1.19         |
| Total response hours            | 63,807       |
| Cost per hour - Note (3)        | \$30.75      |
| Total annual cost to Government | \$1,962,065  |

Notes:

(1) See Line C for Item 12.c, Total annual public burden, above.

(2) The hours per response is an average based on the total time required for the Government to receive, review, and analyze the information submitted by the contractor for facilities capital employed (DFARS 215.404-71-4) (estimated at 1 hour per response), and cost estimating systems (DFARS 215.407-5) (estimated at 80 hours per response). The hours per response is calculated by dividing total response hours by the total number of responses (see Note 1). Total response hours were derived as follows.

| <b>Action</b>               | <b>Hours per Response</b> | <b>Annual Responses</b> | <b>Annual Response Hours</b> |
|-----------------------------|---------------------------|-------------------------|------------------------------|
| Facilities Capital Employed | 1                         | 53,327                  | 53,327                       |
| Estimating                  | 80                        | 131                     | 10,480                       |
| <b>Total Response Hours</b> |                           |                         | <b>63,807</b>                |

(3) See Note (4) for Item 12.a, Estimate of public burden, above.

**15. Program changes.** The estimates have remained unchanged from the previous submission.

**16. Publication.** Results of this collection will not be published.

**17. Expiration date.** We do not seek approval to not display the expiration dates for OMB approval of the information collection.

**18. Certification.** There are no exceptions to the certification accompanying this Paperwork Reduction Act submission. Although the information collection requirement does not reduce the burden on small entities, the information is the minimum needed by contracting officers in order to reward contractors when establishing the price of certain negotiated defense contracts by recognizing their capital investment in facilities.

**B. Collections of Information Employing Statistical Methods**

Statistical methods are not used in this information collection.

## **215.404-71-4 Facilities capital employed.**

(a) *Description.* This factor focuses on encouraging and rewarding capital investment in facilities that benefit DoD. It recognizes both the facilities capital that the contractor will employ in contract performance and the contractor's commitment to improving productivity.

(b) *Contract facilities capital estimates.* The contracting officer shall estimate the facilities capital cost of money and capital employed using—

(1) An analysis of the appropriate Forms CASB-CMF and cost of money factors (48 CFR 9904.414 and FAR 31.205-10); and

(2) DD Form 1861, Contract Facilities Capital Cost of Money.

(c) *Use of DD Form 1861.* See [PGI 215.404-71-4\(c\)](#) for obtaining field pricing support for preparing DD Form 1861.

(1) *Purpose.* The DD Form 1861 provides a means of linking the Form CASB-CMF and DD Form 1547, Record of Weighted Guidelines Application. It—

(i) Enables the contracting officer to differentiate profit objectives for various types of assets (land, buildings, equipment). The procedure is similar to applying overhead rates to appropriate overhead allocation bases to determine contract overhead costs.

(ii) Is designed to record and compute the contract facilities capital cost of money and capital employed which is carried forward to DD Form 1547.

(2) *Completion instructions.* Complete a DD Form 1861 only after evaluating the contractor's cost proposal, establishing cost of money factors, and establishing a prenegotiation objective on cost. Complete the form as follows:

(i) List overhead pools and direct-charging service centers (if used) in the same structure as they appear on the contractor's cost proposal and Form CASB-CMF. The structure and allocation base units-of-measure must be compatible on all three displays.

(ii) Extract appropriate contract overhead allocation base data, by year, from the evaluated cost breakdown or

prenegotiation cost objective and list against each overhead pool and direct-charging service center.

(iii) Multiply each allocation base by its corresponding cost of money factor to get the facilities capital cost of money estimated to be incurred each year. The sum of these products represents the estimated contract facilities capital cost of money for the year's effort.

(iv) Total contract facilities cost of money is the sum of the yearly amounts.

(v) Since the facilities capital cost of money factors reflect the applicable cost of money rate in Column 1 of Form CASB-CMF, divide the contract cost of money by that same rate to determine the contract facilities capital employed.

(d) *Preaward facilities capital applications.* To establish cost and price objectives, apply the facilities capital cost of money and capital employed as follows:

(1) *Cost of Money.*

(i) *Cost Objective.* Use the imputed facilities capital cost of money, with normal, booked costs, to establish a cost objective or the target cost when structuring an incentive type contract. Do not adjust target costs established at the outset even though actual cost of money rates become available during the period of contract performance.

(ii) *Profit Objective.* When measuring the contractor's effort for the purpose of establishing a prenegotiation profit objective, restrict the cost base to normal, booked costs. Do not include cost of money as part of the cost base.

(2) *Facilities Capital Employed.* Assess and weight the profit objective for risk associated with facilities capital employed in accordance with the profit guidelines at 215.404-71-4.

(e) *Determination.* The following extract from the DD Form 1547 has been annotated to explain the process.

| Item | Contractor Facilities Capital Employed | Assigned Value | Amount Employed | Profit Objective |
|------|--|----------------|-----------------|------------------|
| 26.  | Land                                   | N/A            | (2)             | N/A              |



|     |           |     |     |     |
|-----|-----------|-----|-----|-----|
| 27. | Buildings | N/A | (2) | N/A |
| 28. | Equipment | (1) | (2) | (3) |

(1) Select a value from the list in paragraph (f) of this subsection using the evaluation criteria in paragraph (g) of this subsection.

(2) Use the allocated facilities capital attributable to land, buildings, and equipment, as derived in DD Form 1861, Contract Facilities Capital Cost of Money.

(i) In addition to the net book value of facilities capital employed, consider facilities capital that is part of a formal investment plan if the contractor submits reasonable evidence that—

(A) Achievable benefits to DoD will result from the investment; and

(B) The benefits of the investment are included in the forward pricing structure.

(ii) If the value of intracompany transfers has been included in Block 20 at cost (i.e., excluding general and administrative (G&A) expenses and profit), add to the contractor's allocated facilities capital, the allocated facilities capital attributable to the buildings and equipment of those corporate divisions supplying the intracompany transfers. Do not make this addition if the value of intracompany transfers has been included in Block 20 at price (i.e., including G&A expenses and profit).

(3) Multiply (1) by (2).

(f) *Values: Normal and designated ranges.*

| Asset Type | Normal Value | Designated Range |
|------------|--------------|------------------|
| Land       | 0%           | N/A              |
| Buildings  | 0%           | N/A              |
| Equipment  | 17.5%        | 10% to 25%       |

(g) *Evaluation criteria.*

(1) In evaluating facilities capital employed, the contracting officer—

(i) Should relate the usefulness of the facilities

capital to the goods or services being acquired under the prospective contract;

(ii) Should analyze the productivity improvements and other anticipated industrial base enhancing benefits resulting from the facilities capital investment, including—

(A) The economic value of the facilities capital, such as physical age, undepreciated value, idleness, and expected contribution to future defense needs; and

(B) The contractor's level of investment in defense related facilities as compared with the portion of the contractor's total business that is derived from DoD; and

(iii) Should consider any contractual provisions that reduce the contractor's risk of investment recovery, such as termination protection clauses and capital investment indemnification.

(2) *Above normal conditions.*

(i) The contracting officer may assign a higher than normal value if the facilities capital investment has direct, identifiable, and exceptional benefits. Indicators are—

(A) New investments in state-of-the-art technology that reduce acquisition cost or yield other tangible benefits such as improved product quality or accelerated deliveries; or

(B) Investments in new equipment for research and development applications.

(ii) The contracting officer may assign a value significantly above normal when there are direct and measurable benefits in efficiency and significantly reduced acquisition costs on the effort being priced. Maximum values apply only to those cases where the benefits of the facilities capital investment are substantially above normal.

(3) *Below normal conditions.*

(i) The contracting officer may assign a lower than normal value if the facilities capital investment has little benefit to DoD. Indicators are—

(A) Allocations of capital apply predominantly to commercial item lines;

(B) Investments are for such things as furniture and fixtures, home or group level administrative offices, corporate aircraft and hangars, gymnasiums; or

(C) Facilities are old or extensively idle.

(ii) The contracting officer may assign a value significantly below normal when a significant portion of defense manufacturing is done in an environment characterized by outdated, inefficient, and labor-intensive capital equipment.

**215.407-5 Estimating systems.**

**215.407-5-70 Disclosure, maintenance, and review requirements.**

(a) *Definitions.*

(1) "Acceptable estimating system" is defined in the clause at [252.215-7002](#), Cost Estimating System Requirements. (2)

"Contractor" means a business unit as defined in FAR 2.101. (3)

"Estimating system" is as defined in the clause at [252.215-7002](#), Cost Estimating System Requirements. (4) "Sig

is defined in the clause at [252.215-7002](#), Cost Estimating System Requirements.

(b) *Applicability.*

(1) DoD policy is that all contractors have acceptable estimating systems that consistently produce well-supported proposals that are acceptable as a basis for negotiation of fair and reasonable prices. (2) A la

to estimating system disclosure, maintenance, and review requirements if-

(i) In its preceding fiscal year, the contractor received DoD prime contracts or subcontracts totaling \$50 million or more for which certified cost or pricing were required; or

(ii) In its preceding fiscal year, the contractor received DoD prime contracts or subcontracts totaling \$10 million or more (but less than \$50 million) for which certified cost or pricing data were required and the contracting officer, with concurrence or at the request of the ACO, determines it to be in the best interest of the Government (e.g., significant estimating problems are believed to exist or the contractor's sales are predominantly Government).

(c) *Policy.*

(1) The contracting officer shall-

(i) Through use of the clause at [252.215-7002](#), Cost Estimating System Requirements, apply the disclosure, maintenance, and review requirements to large business contractors meeting the criteria in paragraph (b)(2)(i) of this section;

(ii) Consider whether to apply the disclosure, maintenance, and review requirements to large business contractors under paragraph (b)(2)(ii) of this section; and

(iii) Not apply the disclosure, maintenance, and review requirements to other than large business contractors.

(2) The cognizant contracting officer, in consultation with the auditor, for contractors subject to paragraph (b)(2) of this section, shall—

(i) Determine the acceptability of the disclosure and approve or disapprove the system; and

(ii) Pursue correction of any deficiencies.

(3) The auditor conducts estimating system reviews.

(4) An acceptable system shall provide for the use of appropriate source data, utilize sound estimating techniques and good judgment, maintain a consistent approach, and adhere to established policies and procedures.

(5) In evaluating the acceptability of a contractor's estimating system, the contracting officer, in consultation with the auditor, shall determine whether the contractor's estimating system complies with the system criteria for an acceptable estimating system as prescribed in the clause at [252.215-7002](#), Cost Estimating System Requirements.

(d) *Disposition of findings—*

(1) *Reporting of findings.* The auditor shall document findings and recommendations in a report to the contracting officer. If the auditor identifies any significant estimating system deficiencies, the report shall describe the deficiencies in sufficient detail to allow the contracting officer to understand the deficiencies.

(2) *Initial determination.*

(i) The contracting officer shall review all findings and recommendations and, if there are no significant deficiencies, shall promptly notify the contractor, in writing, that the contractor's estimating system is acceptable and approved; or

(ii) If the contracting officer finds that there are one

or more significant deficiencies (as defined in the clause at [252.215-7002](#), Cost Estimating System Requirements) due to the contractor's failure to meet one or more of the estimating system criteria in the clause at [252.215-7002](#), the contracting officer shall—

(A) Promptly make an initial written determination on any significant deficiencies and notify the contractor, in writing, providing a description of each significant deficiency in sufficient detail to allow the contractor to understand the deficiency;

(B) Request the contractor to respond, in writing, to the initial determination within 30 days; and

(C) Promptly evaluate the contractor's responses to the initial determination, in consultation with the auditor or functional specialist, and make a final determination.

(3) *Final determination.*

(i) The contracting officer shall make a final determination and notify the contractor, in writing, that—

(A) The contractor's estimating system is acceptable and approved, and no significant deficiencies remain, or

(B) Significant deficiencies remain. The notice shall identify any remaining significant deficiencies, and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(1) Request that the contractor, within 45 days of receipt of the final determination, either correct the deficiencies or submit an acceptable corrective action plan showing milestones and actions to eliminate the deficiencies;

(2) Disapprove the system in accordance with the clause at [252.215-7002](#), Cost Estimating System Requirements; and

(3) Withhold payments in accordance with the clause at [252.242-7005](#), Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a

contractor's corrective action and the correction of significant deficiencies in [PGI 215.407-5-70](#)(e).

(e) *System approval*. The contracting officer shall promptly approve a previously disapproved estimating system and notify the contractor when the contracting officer determines that there are no remaining significant deficiencies.

(f) *Contracting officer notifications*. The cognizant contracting officer shall promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments, to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

**252.215-7002 Cost Estimating System Requirements.**

As prescribed in 215.408(2), use the following clause:

COST ESTIMATING SYSTEM REQUIREMENTS (DEC  
2012)

(a) Definitions.

"Acceptable estimating system" means an estimating system that complies with the

system criteria in paragraph (d) of this clause, and provides for a system that—

- (1) Is maintained, reliable, and consistently applied;
- (2) Produces verifiable, supportable, documented, and timely cost estimates that are an acceptable basis for negotiation of fair and reasonable prices;
- (3) Is consistent with and integrated with the Contractor's related management systems; and
- (4) Is subject to applicable financial control systems.

"Estimating system" means the Contractor's policies,

procedures,  
and practices for budgeting and planning controls, and generating estimates of costs and other data included in proposals submitted to customers in the expectation of receiving contract awards. Estimating system includes the Contractor's—

- (1) Organizational structure;
- (2) Established lines of authority, duties, and responsibilities;
- (3) Internal controls and managerial reviews;
- (4) Flow of work, coordination, and communication; and
- (5) Budgeting, planning, estimating methods, techniques, accumulation of historical costs, and other analyses used to generate cost estimates.

"Significant deficiency" means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon data and information produced by the



system that is needed for management purposes.

(b) General. The Contractor shall establish, maintain, and comply with an acceptable estimating system.

(c) Applicability. Paragraphs (d) and (e) of this clause apply if the Contractor is a large business and either—

(1) In its fiscal year preceding award of this contract, received Department of Defense (DoD) prime contracts or subcontracts, totaling \$50 million or more for which certified cost or pricing data were required; or

(2) In its fiscal year preceding award of this contract

– (i) Received DoD prime contracts or subcontracts totaling \$10 million or more (but less than \$50 million) for which certified cost or pricing data were required; and

(ii) Was notified, in writing, by the Contracting Officer that paragraphs (d) and (e) of this clause apply.

(d) System requirements.

(1) The Contractor shall disclose its estimating system to the Administrative Contracting Officer (ACO), in writing. If the Contractor wishes the Government to protect the data and information as privileged or confidential, the Contractor must mark the documents with the appropriate legends before submission.

(2) An estimating system disclosure is acceptable when the Contractor has provided the ACO with documentation that—

(i) Accurately describes those policies, procedures, and practices that the Contractor currently uses in preparing cost proposals; and

(ii) Provides sufficient detail for the Government to reasonably make an informed judgment regarding the acceptability of the Contractor's estimating practices.

(3) The Contractor shall—

(i) Comply with its disclosed estimating system; and

(ii) Disclose significant changes to the cost estimating system to the ACO on a timely basis.

(4) The Contractor's estimating system shall provide for the use of appropriate source data, utilize sound estimating techniques and good judgment, maintain a consistent approach, and adhere to established policies and procedures. An acceptable estimating system shall accomplish the following functions:

(i) Establish clear responsibility for preparation, review, and approval of cost estimates and

budgets.

(ii) Provide a written description of the organization and duties of the personnel responsible for preparing, reviewing, and approving cost estimates and budgets.

(iii) Ensure that relevant personnel have sufficient training, experience, and guidance to perform estimating and budgeting tasks in accordance with the Contractor's established procedures.

(iv) Identify and document the sources of data and the estimating methods and rationale used in developing cost estimates and budgets.

(v) Provide for adequate supervision throughout the estimating and budgeting process.

(vi) Provide for consistent application of estimating and budgeting techniques.

(vii) Provide for detection and timely correction of errors.

(viii) Protect against cost duplication and omissions. (ix) Provide for the use of historical experience, including historical vendor pricing data, where appropriate.

(x) Require use of appropriate analytical methods.

(xi) Integrate data and information available from other management systems.

(xii) Require management review, including verification of compliance with the company's estimating and budgeting policies, procedures, and practices.

(xiii) Provide for internal review of, and accountability for, the acceptability of the estimating system, including the budgetary data supporting indirect cost estimates and comparisons of projected results to actual results, and an analysis of any differences.

(xiv) Provide procedures to update cost estimates and notify the Contracting Officer in a timely manner throughout the negotiation process.

(xv) Provide procedures that ensure subcontract prices are reasonable based on a documented review and analysis provided with the prime proposal, when practicable.

(xvi) Provide estimating and budgeting practices that consistently generate sound proposals that are compliant with the

provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price.

(xvii) Have an adequate system description, including policies, procedures, and estimating and budgeting practices, that comply with the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement.

(e) Significant deficiencies.

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any significant deficiencies. The initial determination will describe the deficiency in sufficient detail to allow the Contractor to understand the deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies significant deficiencies in the Contractor's estimating system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor's response and notify the Contractor, in writing, of the Contracting Officer's final determination concerning—

(i) Remaining significant deficiencies;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more significant deficiencies remain.

(f) If the Contractor receives the Contracting Officer's final determination of significant deficiencies, the Contractor shall, within 45 days of receipt of the final determination, either correct the significant deficiencies or submit an acceptable corrective action plan showing milestones and actions to eliminate the significant deficiencies.

(g) Withholding payments. If the Contracting Officer makes a final determination to disapprove the Contractor's estimating system, and the contract includes the clause at 252.242-7005, Contractor Business Systems, the Contracting Officer will withhold payments in accordance with that clause.

(End of clause)