

ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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DP/DSPS

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION & BUSINESS MANAGEMENT,
ASN (RDA) /ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT), OASA (RD&A) /SARD-ZP
SENIOR PROCUREMENT EXECUTIVE, DEFENSE LOGISTICS
AGENCY

SUBJECT: Financial and Cost Aspects of Other Transactions for
Prototype Projects

Recently the DoD Inspector General completed a review of the financial and cost aspects of other transactions (OTs) (Report Number 98-191, dated August 24, 1998). The report identified some areas that warrant attention and more careful construction of agreement terms and conditions. It is each agreements officer's responsibility to ensure agreement terms and conditions are clear and protect the government's interests.

OTs provide the flexibility to negotiate payment or financing terms appropriate for the particular project. Many OTs have used a means of financing referred to as payable milestones. Some of the agreements that include this form of financing have inherent cost-reimbursement features and the intention is for payable milestones reasonably to track to actual expenditures. When this is the case, the agreement must address the procedures for adjusting the payable milestones based on actual expenditures. Payable milestones should be adjusted as soon as it is evident that payable milestones are no longer reasonably representative of actual or expected expenditures.

Agreements with firm-fixed price characteristics may contain payable milestone provisions that do not require adjustment for actual expenditures. In these cases, this fact should be clear in the agreement and the negotiated payable milestone values should be commensurate with the estimated value of the milestone events.

There have been cases when agreements required the submittal of technical, business, or annual reports that were not delivered. In some instances, the IG indicates no corrective action was taken



and the OT awardee was paid. Agreements officers must consider whether reports are important enough to warrant establishment of separate payable milestones or if report requirements should be incorporated as part of a larger payable milestone. In either case, an appropriate amount must be withheld if a report is not delivered.

DoD Instruction 3200.14 requires delivery of a technical report to the Defense Technology Information Center (DTIC) upon completion of research and engineering projects. Agreements must include this requirement and require the OT awardee to provide evidence to the agreement administrator of submittal of required reports to DTIC.

It is vital that administrative agreements officers receive all pertinent documentation to ensure the effective administration of the agreement. It is the administrative agreements officer's responsibility to ensure that all terms and conditions of the agreement are being satisfied. If the OT awardee has failed to comply with any term of the agreement, the administrative agreements officer must take timely, appropriate action to remedy the situation.

Please contact Ms. Teresa Brooks at (703) 695-4259 if you have any questions.



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