It's been a while since we weighed-in on the DoD's "should-cost" initiative. Frankly, there hasn't been much to write about recently. We expressed our **early concerns** but since then we've also experienced two "should-cost" reviews – and they turned-out much better than we thought they would. Much of our passion about why "should-cost" was a wrong approach kind of melted away. (It also helped that the DoD participants seemed to lose their early zeal for the initiative as well.)

Despite saying all that, of course we did keep our eyes on "should-cost" and other related DoD initiatives. For example, we published **an article** on GAO's study giving the Better Buying Power initiative a failing grade. Better Buying Power, like "should-cost" is one of those OUSD (AT&L) initiatives that sound great in a PowerPoint briefing, but that don't work out as well as predicted in the real world outside the Pentagon.

Our point being: these initiatives permit senior leaders to give great testimony before Congress, but we should all be rightly skeptical that they will really ever amount to much. Indeed, sometimes they fail completely.

This may be one of those times.

The Hartford Courant (link above) reported that Lockheed Martin and Pentagon negotiators failed to reach agreement on the price for the next batch of F-35 aircraft. Normally when parties to a contract fail to agree, that would constitute a dispute that would require resolution. Not in this case, though.

Instead, the Pentagon used a "rarely invoked" contract clause to unilaterally establish the contract price at its last offer to Lockheed Martin.

According to the newspaper story—

That deal represented a 3.7 percent price decrease from the last batch of F-35s the Pentagon

purchased, and Air Force Lt. Gen. Christopher Bogdan, the program's executive officer, hailed it as 'a fair and reasonable deal.'

We all know that, of course, the deal must be "fair and reasonable" because the contracting officer has an affirmative duty to determine that the price is fair and reasonable. In other words, it was fair and reasonable because the government determined it to be so.

On the other hand, we might reasonably wonder whether Lockheed Martin viewed the deal in similar terms.

Twelve minutes after the Air Force announcement, Lockheed Martin issued an announcement of its own. According to the Hartford Courant story—

[Lockheed said] the contract was not 'mutually agreed upon,' and that the company was 'obligated' to produce the aircraft under 'previously agreed to items.' It said that it was 'disappointed' in the government's action and that while it would 'continue to execute' on the program, it would also 'evaluate our options and path forward.'

Meanwhile, back inside the Beltway, USD (AT&L) Frank Kendall has been under fire by Congressional lawmakers who want to eliminate his position. In response, he **recently touted** reductions in cost growth associated with major defense programs.

We are forced to wonder how much of the reductions in cost growth came from unilaterally established prices with which the contractor was in no position to disagree.

Regardless, Mr. Kendall says he should keep his job because of BBP and "should-cost" and other initiatives that have led to improvements in the cost of major weapon systems. Even if you think he might be a bit biased (because his job is on the line) you have to give the man props for his chutzpah.

In related news, the **2016 report** entitled “Performance of the Defense Acquisition System” was published and Mr. Kendall is using that report as the basis for his personal initiative to keep his job. But that’s not what interests us.

The report also discusses progress made by DCAA.

DCAA is considered to be a part of the defense acquisition system. Perhaps that’s a counter-intuitive thing to say to most of us who deal with DCAA auditors on a routine basis, or to DCMA folks who have had to pick up work formerly performed by DCAA auditors in the past, but nonetheless it’s true.

So let’s see what the official assessment is of DCAA’s performance as part of the defense acquisition system.

With respect to pre-award surveys of contractor accounting systems, the report states that it now takes DCAA an average of 58 days to issue its reports, and that it finds contractors to have acceptable accounting systems 91% of the time. (See page 137.)

With respect to incurred cost audits, the report states that DCAA has significantly reduced its backlog to only 5,700 reports awaiting audit. (Interestingly the report perpetuates the fiction that DCAA is permitted to have two years’ worth of unaudited proposals—some 11,000—as “regular inventory” as if somehow that was okay.) The report states “As part of DCAA strategic initiatives and in support of BBP 2.0, substantial progress has been made since 2011 on reducing the backlog of these audits.”

Speaking of chutzpah, we admire the attempt to give BBP credit for the reduction in audit backlog at DCAA. Readers of this blog know **the reality** of how the backlog was reduced, and we all know it had *exactly zero* to do with BBP 1.0, 2.0, 2.1, or 3.0.

But we suppose a man fighting for his job will say just about anything in order to keep it. Who would blame such a man? Not us.