

Contract Administration

Activity 43: Price and Fee Adjustments

Procedures for adjusting, upward and/or downward, the stated contract price based upon specified contingencies, such as adjustments in established prices, adjustments on the cost of labor or materials, and adjustments for cost indexes of index or materials.

Related Flow Charts: [Flow Chart 43](#)

Part A: Economic Price Adjustments

Tasks	FAR Reference(s)	Additional Information
1. Obtain any data required for economic price adjustment.	FAR 16.203 Fixed-price contracts with economic price adjustment.	Obtain all data required from the contractor or other sources to implement the contract clause as the basis for an economic price adjustment. Depending on the clause in the contract, obtain information such as: <ul style="list-style-type: none">• The effective date and amounts of increases or decreases in applicable established prices (FAR 52.216-2 or 52.216-3);• Causes, effective dates, and amounts of increases or decreases in rates of pay for labor or units prices for material shown in the Schedule (per FAR 52.216-4); or• Changes in cost indexes of labor or material.
2. Verify the information.	FAR 52.216-2 Economic Price Adjustment—Standard Supplies. FAR 52.216-3 Economic Price Adjustment—Semistandard Supplies. FAR 52.216-4 Economic Price Adjustment—Labor and Material.	Check the information to assure that it is accurate and conforms to contract requirements. For example, when the price change is based on a change in an established price, verify the changes in the established price.

Tasks	FAR Reference(s)	Additional Information
3. Prepare and (when necessary) negotiate the price adjustment for the items covered by the adjustment.	FAR 52.216-2 Economic Price Adjustment—Standard Supplies. FAR 52.216-3 Economic Price Adjustment—Semistandard Supplies. FAR 52.216-4 Economic Price Adjustment—Labor and Material.	Follow the requirements of the economic price adjustment clause in the contract. Do not exceed any limits on the price adjustment in the contract clause. The economic price adjustment may cover all contract items or only units delivered during a particular period of time. Negotiate only when required or permitted by the contract economic price adjustment clause (e.g., FAR 52.216-4(b)).
4. Modify the contract to incorporate the economic price adjustment.	FAR 52.216-2 Economic Price Adjustment—Standard Supplies. FAR 52.216-3 Economic Price Adjustment—Semistandard Supplies. FAR 52.216-4 Economic Price Adjustment—Labor and Material.	A bilateral modification is required whenever the amount of adjustment is established through contract negotiation. A bilateral modification is best even when applying a clear-cut formula, because it represents agreement on formula calculations and avoids later questions.

Part B: Incentive Price Revision

Tasks	FAR Reference(s)	Additional Information
1. Obtain and verify quarterly limitation on payments statements.	FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.	Each statement should be: <ul style="list-style-type: none"> • On time within 45 days of the end of each quarter of the contractor’s fiscal year; • Complete in accordance with the requirements of FAR 52.216-16(g) or 52.216-17(i); • Consistent with other available data; and • Otherwise in compliance with contract requirements.

Tasks	FAR Reference(s)	Additional Information
<p>2. Determine whether to adjust billing prices and, if so, the amount of any such adjustment.</p>	<p>FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.</p>	<p>If at any time it appears from information provided by the contractor in the quarterly limitation on payments statement that the then current billing prices will be substantially greater than the estimated final prices, negotiate a reduction in the billing prices.</p> <p>Similarly, the parties may negotiate an increase in billing prices by any or all of the difference between the target prices and the ceiling price, upon the contractor's submission of factual data showing that final cost under this contract will be substantially greater than the target cost.</p>
<p>3. Adjust the billing price(s).</p>	<p>FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.</p>	<p>Negotiate adjusted billing price(s):</p> <ul style="list-style-type: none"> • Base the Government negotiation position on the information presented by the contractor in the quarterly limitation on payments statement and other available information. • Do not agree to any price that would exceed the ceiling price. <p>Incorporate the negotiated billing price change using a bilateral contract modification.</p>

Tasks	FAR Reference(s)	Additional Information
<p>4. If the contract provides for successive targets, establish either a firm fixed-price or final profit adjustment formula.</p>	<p>FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.</p>	<p>When establishing the firm fixed-price or final profit adjustment formula:</p> <ul style="list-style-type: none"> • Analyze the contractor data submitted in accordance with FAR 52.216-17(c). • Establish negotiation positions based on the: <ul style="list-style-type: none"> ○ Contractor data; ○ Other available information; and <input type="checkbox"/><input type="checkbox"/>Analysis results. • Negotiate with the contractor to: <ul style="list-style-type: none"> ○ Establish a firm target cost. ○ Establish a firm target profit. Based on the firm target cost, adjust profit using the sharing arrangement negotiated in the successive targets contract. • Establish a final pricing arrangement. <ul style="list-style-type: none"> ○ If the total firm target cost plus the adjusted profit represents a reasonable price reach agreement on a firm fixed-price contract. ○ If agreement is not reached on a firm fixed-price contract negotiate a profit adjustment formula for use in arriving at the final contract. • Modify the contract to reflect either the agreed-upon firm fixed-price or the profit adjustment formula. Failure to agree does not constitute a dispute under the Disputes clause.

Tasks	FAR Reference(s)	Additional Information
<p>5. Verify data submitted by the contractor for establishing the final total price, and ensure that the calculated total contract price does not exceed the ceiling price.</p>	<p>FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.</p>	<p>Verify that the data:</p> <ul style="list-style-type: none"> • Were submitted within the number of days specified in the contract after the end of the month in which the contractor delivered the last unit of supplies and completed the services specified in the contract. <ul style="list-style-type: none"> ○ If the contractor fails to submit the data on time and it is later determined that the Government overpaid the contractor, the contractor must repay the excess to the Government immediately. ○ Unless repaid within 30 days after the end of the data submittal period, the amount of the excess must bear interest, computed from the date the data were due to the date of repayment, at the rate established in accordance with the Interest clause. <p>Include:</p> <ul style="list-style-type: none"> • A detailed statement of all costs incurred up to the end of that month in performing all work under the items; • An estimate of costs of further performance, if any, that may be necessary to complete performance of all work under the items; • <input type="checkbox"/> A list of all residual inventory and an estimate of its value; and • Any other relevant data that the contracting officer may reasonably require. • Are consistent with other available data; and • Are otherwise in compliance with contract requirements (e.g., submitted in the required format).

Tasks	FAR Reference(s)	Additional Information
<p>6. Establish the Government’s negotiation position for negotiation of final cost and price.</p>	<p>FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.</p>	<p>Adjust total target cost and/or price before establishing final price (FAR 52.216-16(k), (l), (m), and (n) or 52.216-17(m), (n) and (p)).</p> <ul style="list-style-type: none"> • If an equitable adjustment in the contract price is made before the total final price is established, the adjustment: <ul style="list-style-type: none"> ○ Must be made in the total target cost; ○ May be made in the maximum dollar limit on the total final price, the total target profit, or both; and ○ If the adjustment is made after the total final price is established, only the total final price shall be adjusted. • If any clause of this contract provides that the contract price does not or will not include an amount for a specific purpose, then neither any target price nor the total final price includes or will include any amount for that purpose. • If the contract expressly provides that a cost of performance must be at Government expense, that expense must not be included in any target price or in the total final price, and must be reimbursed separately. • When any of tax clause requires that the contract price be increased or decreased as a result of changes in the obligation of the contractor to pay or bear the burden of certain taxes or duties, the increase or decrease must be made in the total target price or, if it has been established, in the total final price, so that it will not affect the contractor's profit or loss on this contract. <p>Apply the requirements of FAR 52.216-16 or 52.216-17 and performance incentives to develop the profit objective. Assure that the objective price does not exceed the price ceiling. If the contract began as a successive targets contract, assure that objective does not exceed the ceiling price set in the original contract.</p>

Tasks	FAR Reference(s)	Additional Information
7. Negotiate final price.	FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.	Assure that final price does not exceed any applicable price ceilings. If an agreement on total final price cannot be reached within 60 days (or within such other period as the Contracting Officer may specify) after the date on which the data required by the contract are to be submitted, issue a decision in accordance with the Disputes clause.
8. Modify the contract to reflect the final total price.	FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.	Use a bilateral contract modification to establish the final contract price.
9. Document the contract file.	FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.	Contract file documentation should include: <ul style="list-style-type: none"> • A copy of the contractor’s final cost proposal; • Any analysis of the proposal; and • A price negotiation memorandum.
10. Process the final invoice for payment.	FAR 52.216-16 Incentive Price Revision—Firm Target. FAR 52.216-17 Incentive Price Revision—Successive Targets.	When reviewing the final invoice: <ul style="list-style-type: none"> • Identify and apply any deductions or withholdings or additions, and process the invoice for final payment. • If the contractor has been overpaid, take action to obtain the overpayment from the contractor. • If the contract expressly provides that a cost of performance must be at Government expense, that expense must be reimbursed separately.

Part C: Award Fee Adjustments

Tasks	FAR Reference(s)	Additional Information
<p>1. Collect data on the contractor's performance against each contract criterion for determining the award fee amount.</p>	<p>Air Force Award Fee Guide, March 2010; NASA Award Fee Contract Guide, June 2001.</p>	<p>A cost-plus-award-fee (CPAF) or fixed-price contracts with award fee (FPAF) should provide for evaluation of contract performance and a decision on a portion of the award fee at stated intervals during contract performance.</p> <p>Collect data for each evaluation based on the evaluation criteria stated in the contract.</p>
<p>2. Brief the award fee board.</p>	<p>FAR 16.404(b)(3) Fixed-price contracts with award fees.</p> <p>Air Force Award Fee Guide, March 2010; NASA Award Fee Contract Guide, June 2001.</p>	<p>Establishment of an award-fee board is required as one of the conditions for using an FPAF contract. The contracting activity may also establish an award-fee board for a cost-plus-award-fee contract. The purpose of the board is to evaluate contractor performance and either determine the amount of award fee or recommend an amount to the contracting officer.</p> <p>When briefing the board:</p> <ul style="list-style-type: none"> • Present the contract award-fee evaluation criteria and the award-fee plan developed based on those criteria. • Provide any relevant data from performance monitoring. • Request the board to: <ul style="list-style-type: none"> ○ Apply the award-fee evaluation criteria; ○ Rate or recommend a rating of overall performance; and ○ Document their findings as prescribed in the contract clause and agency policy.

Tasks	FAR Reference(s)	Additional Information
3. Discuss the board's award-fee determination or recommendation with the contractor and request any feedback or rebuttal.	Air Force Award Fee Guide, March 2010; NASA Award Fee Contract Guide, June 2001.	<p>Discuss the reasons for the rating and listen to any contractor feedback or rebuttal. Discussions should be designed to:</p> <ul style="list-style-type: none"> • Identify facts that may alter the board's evaluation; and • Improve contractor understanding of why the contractor did or did not receive all available award fee so that the contractor will be better able to improve performance in the future. <p>Whenever practicable, award-fee board members should participate in these discussions. That is particularly true when the board has the ultimate responsibility for making the award-fee determination.</p>
4. Determine the amount of the award fee and add it either to the base fee or price.	Air Force Award Fee Guide, March 2010; NASA Award Fee Contract Guide, June 2001.	<p>The amount of the award fee should be reasonable based on the:</p> <ul style="list-style-type: none"> • Contract award-fee clause; • Award-fee plan; • Agency policy; and • Available information on contractor performance.
5. Document the contract file.	FAR 4.803 Contents of contract files.	Documentation should be adequate to demonstrate that the award-fee decision was reasonable based on the facts and not arbitrary or capricious.

Part D: Incentive Fee Adjustments

Tasks	FAR Reference(s)	Additional Information
<p>1. Monitor the contractor's cost and performance.</p>	<p>Subpart FAR 16.404 Incentive contracts. FAR 52.216-10 Incentive Fees.</p>	<p>Monitor the contractor's cost against target cost using all available information. Measure performance against any performance incentive targets set in the contract. Use information from sources, such as:</p> <ul style="list-style-type: none"> • Contractually required cost/schedule analysis and reporting, including: <ul style="list-style-type: none"> ○ Cost performance reports under earned value management system (EVMS) guidelines; and ○ Cost/schedule status reports. • Contractually required cost information, including: <ul style="list-style-type: none"> ○ Contract funds status reports; ○ Progress payment requests; ○ Cost-reimbursement vouchers; ○ Contract progress reports; or ○ Limitation of cost/funds notices. • Contractor production management reports and analyses, including: <ul style="list-style-type: none"> ○ Phase planning or Gantt charts; ○ Production flow charts; ○ Program evaluation and review technique (PERT) network analyses; or ○ Progress review meetings. • Observation by Government personnel.

Tasks	FAR Reference(s)	Additional Information
<p>2. Upon receipt of invoices, determine the pro rata amount of fee to pay.</p>	<p>FAR 52.216-10 Incentive Fees.</p>	<p>Generally prorate an amount for fee based on the target fee in the schedule. Exceptions:</p> <ul style="list-style-type: none"> • Pay on the basis of a lower fee when monitoring indicates that the contractor will not achieve the target(s). • Pay on the basis of a higher fee when monitoring clearly indicates that the contractor will earn a fee significantly above the target fee. • After paying out 85% of the applicable fee, determine a retainage (if any) – not to exceed 15% of the fee or \$100,000 (whichever is less).
<p>3. Adjust total target cost, target fee, minimum fee, and maximum fee (as appropriate).</p>	<p>FAR 52.216-10 Incentive Fees.</p>	<p>Adjust target cost, target fee, minimum fee, and maximum fee (as appropriate), when:</p> <ul style="list-style-type: none"> • The contract work is increased or decreased by a contract modification; or • Any equitable adjustment in the target cost is authorized under any other clause • Any appropriate adjustment must be stated in a supplemental agreement to the contract.

Tasks	FAR Reference(s)	Additional Information
<p>4. At closeout, total the allowable costs for application of the incentive formula.</p>	<p>FAR 52.216-10 Incentive Fees.</p>	<p>Calculate the total allowable cost for fee adjustment. Exclude costs arising from:</p> <ul style="list-style-type: none"> • The causes listed in the Excusable Delay clause (FAR 52.249-14), to the extent that they are beyond the control and without the fault or negligence of the contractor or any subcontractor. • Implementation of statutes, court decisions, written rulings, or regulations that raise the contractor's taxes, if affected after negotiation of the target cost. • The contractor's involvement in litigation as required by the Contracting Officer pursuant to a contract clause (direct costs only). • Purchase and maintenance of additional insurance not in the target cost and required by the Contracting Officer. • Claims for reimbursement for liabilities to third persons pursuant to the Insurance— Liability to Third Persons clause. • Any claim, loss, or damage resulting from a risk for which the contractor has been relieved of liability by the Government Property clause. • Any claim, loss, or damage resulting from a risk defined in the contract as unusually hazardous or as a nuclear risk and against which the Government has expressly agreed to indemnify the contractor. • Any other activity whose cost is specifically excluded by the contract from total allowable cost for fee adjustment.
<p>5. Calculate the fee payable.</p>	<p>FAR 52.216-10(e) Incentive fee.</p>	<p>Apply the formula as modified under any equitable adjustments. In addition, apply any performance incentives included in the contract.</p>
<p>6. Modify the contract to reflect the final cost and fee/profit.</p>	<p>FAR 52.216-10(f) Incentive Fees.</p>	<p>The total allowable cost and the adjusted fee determined must be evidenced by a bilateral contract modification.</p>

Part E: Price Redeterminations

Tasks	FAR Reference(s)	Additional Information
<p>1. Obtain and verify quarterly limitation on payments statements.</p>	<p>FAR 16.205 Fixed-price contracts with prospective price redetermination.</p> <p>FAR 16.206 Fixed-ceiling-price contracts with retroactive price redetermination.</p> <p>FAR 52.216-5 Price Redetermination—Prospective.</p> <p>FAR 52.216-6 Price Redetermination—Retroactive.</p>	<p>Each statement should be:</p> <ul style="list-style-type: none"> • On time within 45 days of the end of each quarter of the contractor’s fiscal year; • Complete in accordance with the requirements of FAR 52.216-5(h) or FAR 52.216-6(g); • Consistent with other available data; and • Otherwise in compliance with contract requirements.
<p>2. Pending the redetermination of price, determine whether to adjust billing prices and, if so, the amount of any such adjustment.</p>	<p>FAR 52.216-5 Price Redetermination—Prospective.</p> <p>FAR 52.216-6 Price Redetermination—Retroactive.</p>	<p>If at any time before price redetermination it appears that the then-current billing prices will be substantially greater than the estimated final prices, negotiate a reduction in the billing prices. Similarly, the parties may negotiate an increase in billing prices when the then-current billing prices will be substantially less than the estimated final prices. Total price must not exceed any price ceiling set in the contract.</p>
<p>3. Adjust the billing price(s).</p>	<p>FAR 52.216-5 Price Redetermination—Prospective.</p> <p>FAR 52.216-6 Price Redetermination—Retroactive.</p>	<p>Negotiate adjusted billing price(s):</p> <ul style="list-style-type: none"> • Base the Government negotiation position on the information presented by the contractor in the quarterly limitation on payments statement and other available information. • Do not agree to any price that would exceed any ceiling price set in the contract. • Incorporate the negotiated billing price change using a bilateral contract modification.

Tasks	FAR Reference(s)	Additional Information
4. Obtain the contractor's proposed price and supporting data for the price redetermination.	FAR 52.216-5 Price Redetermination—Prospective. FAR 52.216-6 Price Redetermination—Retroactive.	<p>The period for price redetermination will depend on the contract type.</p> <ul style="list-style-type: none"> For a fixed-price contract with prospective price redetermination, pricing will be for subsequent contract periods. For a fixed-ceiling-price contract with retroactive price redetermination, pricing will normally be for the entire completed contract. <p>The contractor's data submission should be:</p> <ul style="list-style-type: none"> On time in accordance with the contract; Complete in accordance with the requirements of FAR 52.216-5(c) or FAR 52.216-6(c); Consistent with other available data; and Otherwise in compliance with contract requirements.
5. Establish the Government's position on the price for the redetermination period.	FAR 52.216-5 Price Redetermination—Prospective. FAR 52.216-6 Price Redetermination—Retroactive.	<p>Consider all available information, including:</p> <ul style="list-style-type: none"> The contractor's proposal; Actual cost information obtained from the proposal or other sources; Any analysis of the proposal by technical or audit personnel; and Any other relevant information that is available.
6. Negotiate the price for the redetermination period.	FAR 52.216-5 Price Redetermination—Prospective. FAR 52.216-6 Price Redetermination—Retroactive.	<p>Assure that price does not exceed any applicable price ceilings.</p> <p>If an agreement on total final price cannot be reached within 60 days (or within such other period as the contracting officer may specify) after the date on which the data required by the contract are to be submitted, issue a decision in accordance with the Disputes clause.</p>

Tasks	FAR Reference(s)	Additional Information
7. Modify the contract to reflect the price for the redetermination period.	FAR 52.216-5 Price Redetermination—Prospective. FAR 52.216-6 Price Redetermination—Retroactive.	Use a bilateral contract modification to establish the price for the period.
8. Document the contract file.	FAR 4.803 Contents of contract files.	Contract file documentation should include: <ul style="list-style-type: none"> • A copy of the contractor’s cost proposal; • Any analysis of the proposal; and • A price negotiation memorandum.