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NORTHROP GRUMMAN

CAS Harmonization – EVM and Financial Aspects

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CAS Harmonization Discussions within NGC

- Background
  - FPRA/FPRPs have been updated to reflect the impacts of the change to incorporate the CAS change regarding treatment of Pension Costs
    - EACs have been updated
    - Profitability packages have been updated to reflect the changes in the EAC

- Issue
  - Need recommendation on how to address budgeting process and Margin booking rate process
    - Desire to stay consistent with Corporate Guidance
    - Contract Value adjustment in Profitability and on Contracts is key issue
      - Desire to stay consistent

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- Alternative 1 for Budget Baseline incorporation
  - Utilize Authorized Unpriced Work as method to Budget SOW
    - Adjustment to Target Cost recorded on CPR
    - Use to provide Budget for revised rates
    - Pros
      - Can be implemented on all Contracts
      - Allows budgeting even if we do not have MR
      - Adjustment to Target Costs improves financials
    - Cons
      - Forces Customers to address issue – negative feedback
      - Assumes Contract adjustment will occur at each Contract – what happens if it does not?
      - Similar to UCA which is not positively looked upon by Customers

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- Alternative 2 for Budget Baseline incorporation
  - Utilize Management Reserve if available to update Budget baseline changes
    - Pros
      - Can be implemented by Program if change is significant for a given Contract
        - » If change is not significant, budget is not updated, but impact is in EAC
      - Customer will see baseline change and effort will be budgeted and therefore performance will not be impacted (CPI)
      - Could be on case by case basis
        - » Compliant per System Description
    - Cons
      - No change to Contract Baseline if MR is not available or if Program Manager does
      - Could prevent MR from being utilized for other issues (if and when they arise)
      - No adjustment to Target Cost for Financials

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- Alternative 3 for Budget Baseline incorporation
  - No change to Budgets, incorporate EAC impacts and change Budgets as appropriate when Contract change occurs on that Contract
    - Pros
      - Treated just like RWA, no budget changes until Contract Change
      - EAC utilized updated Rates
      - No impact to MR
      - Compliant to procedures
    - Cons
      - No change to Contract Baseline, which may degrade performance (CPI)
      - VARs may result from variances to budget
      - No Target Cost adjustment for Financials

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- NGC Approach
  - Combination of Alternatives 2 & 3 implemented on a contract by contract basis
    - Default is Alternative 3
    - Alternative 2 is implemented by Program if change is significant for a given Contract and contract has MR

Question is do we need a NDIA PMSC Position on this issue?

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