ADEQUACY CHECKLIST FOR FORWARD PRICING RATE PROPOSALS

Contractors that submit cost or price proposals which require the submission of certified cost or pricing data, generally must do so in a format that is consistent with Table 15-2 of Federal Acquisition Regulation (FAR) 15.408 (see FAR 15.403-5). The requirement to submit certified cost or pricing data extends to all cost elements in the proposal, including the underlying direct and indirect rates which may include costs allocated from corporate/home offices or shared services. When the contracting officer determines that entering into a forward pricing rate agreement (FPRA) is beneficial, FAR 42.1701(b) provides that the ACO shall obtain the contractor's forward pricing rate proposal (FPRP) and require that it include cost or pricing data that are accurate, complete, and current as of the date of submission.

If a contractor does not separately provide an FPRP, but instead includes the proposed rates and supporting data in individual cost or price proposals, the contractor is bound by the format/content requirements specified in FAR 15.403-5. The requirements for adequately supported direct and indirect cost rates are not lessened when a contractor separately submits an FPRP for the rates. Therefore, the requirements contained in Table FAR 15-2 of 15.408 extend to FPRPs (including those submitted to support costs allocated from corporate/home offices or shared services) when the resulting rates are expected to be included in proposals that require the submission of cost or pricing data.

A well-supported FPRP reduces contractor effort needed to support an audit and will facilitate the audit and negotiation process. The extent of detail will vary depending on the specific data supporting each year and based on the size and complexity of the contractor. At larger contractors the audit team should expect, at a minimum, the proposed indirect rates for the first year be based on a detailed management-approved operating budget, and each subsequent period be based on adjustments to the operating budget based on strategic or long-range forecasts (e.g., plant expansions, expected business volume, etc.). Generally, the level of forecasted detail will decrease as the period being estimated moves further into the future and the uncertainty of conditions and potential events grows. It is not expected that even the largest contractors prepare detailed operating budgets for each year of contract performance; however, a detailed budget is expected to support the first year of proposed rates.

In order for the Government to perform the appropriate cost analysis under FAR 15.404-1(c) and to provide a timely, adequate, and fair evaluation of the contractor's proposal, the contractor should have available detailed schedules to support the proposed labor and indirect rates. The schedules should include the historical data used and judgmental factors applied to arrive at the proposed rates. The proposal and supporting data should be provided in an electronic format (FAR 15.403-5(b)(3)).

ADEQUACY CHECKLIST FOR FORWARD PRICING RATE PROPOSALS

The audit team should make an initial assessment of adequacy as soon as possible after receipt and before the walkthrough so that corrective action can be taken immediately. The audit team should request a walk-through from the contractor to obtain an understanding of the contractor's submission, estimating methodology, the location of the cost or pricing data the estimator used, and cost/rate monitoring policies and procedures followed. During the walkthrough, the auditor also should discuss with the contractor any items of concern from the initial adequacy assessment. After the walkthrough, the initial adequacy assessment should be revisited based on the understanding obtained.

Most of the criteria in the FPRP Adequacy Checklist are specifically required by the FAR and/or Defense Federal Acquisition Regulation Supplement (DFARS) and are referenced accordingly. The items not referenced to the FAR and/or DFARS are items that will still, in most cases, be needed for negotiations and Government review. Items may be added to the checklist if required by the contracting officer.

The existence or adequacy of some of the supporting data can be determined only by discussing it with the contractor during the walk-through or during the course of a detailed audit. **Therefore, it is possible that an initial finding of adequacy may be changed once the audit has started.**

ADEQUACY CHECKLIST FOR FORWARD PRICING RATE PROPOSALS

	Adequate?			Comment
	Yes	No	NA	
General Requirements				
1. Is there a properly completed first page of the proposal or a summary format as specified by the contracting officer (FAR 15.408, Table 15-2 I., *General Instructions*, A.)?				
2. Does the submission include a table of contents (index) identifying and referencing all supporting data accompanying or identified in the proposal? NOTE: Supporting documentation for all costs should be provided with the submission or be readily available. If not provided with the submission, the basis of estimate should include the location of the documentation and the point of contact (custodian) name, phone number, and email address (FAR 15.408 Table 15-2 I., *General Instructions*, B.; DFARS 252.215-7002(d)(4)(iv)).				
3. If the submission is a revision/update to the forward pricing rates for the year, has the contractor explained the reasons for the update and identified the changes between the original submission for the year and the new revision/update (FAR 15.408 Table 15-2 I., *General Instructions*, B.; DFARS 252-215.-7002(d)(4)(iv))?				
4. Is the proposal mathematically correct and does it reconcile to the supporting data referenced? (FAR 15.408 Table 15-2 I., *General Instructions*, C.(2)(i)				

ADEQUACY CHECKLIST FOR
FORWARD PRICING RATE PROPOSALS

	Adequate?			Comment
	Yes	No	NA	
5. Is the proposal internally consistent (for example, is the direct labor base used for labor overhead consistent with direct labor in the G&A allocation base)? (FAR 15.408, Table 15-2 I., *General Instructions*, D				
6. Do proposed costs based on judgmental factors include an explanation of the estimating processes and methods used, including those used in projecting from known data (FAR 15.408 Table 15-2 I., *General Instructions*, C.(2)(i); DFARS 252.215-7002(d)(4)(iv))?				
7. Did the contractor provide trend and budgetary data (FAR 15.408, Table 15-2 II., *Cost Elements*, C., *Indirect Costs;* DFARS 252.215-7002(d)(4)(ix) and (x))?				
8. If trend and budgetary data was used as the basis for the forecasted rates, did the contractor include an adequate explanation of how the data was used, including any adjustments to the data (FAR 15.408, Table 15-2 II., *Cost Elements.*, C, *Indirect Costs;* DFARS 252.215-7002(d)(4)(iv))?				
9. Does the submission include a comparison of prior forecasted costs to actual results in the same format as the submission and an explanation/analysis of any differences (DFARS 252.215-7002(d)(4)(xiii))?				

ADEQUACY CHECKLIST FOR
FORWARD PRICING RATE PROPOSALS

	Adequate?			Comment
	Yes	No	NA	
10. Did the contractor disclose known or anticipated changes in business activities or processes that could materially impact the costs (if not previously provided)? For example: a. management initiatives to reduce costs; b. changes in management objectives as a result of economic conditions and increased competitiveness; c. changes in accounting policies, procedures, and practices including: (i) reclassification of expenses from direct to indirect or vice versa, (ii) new methods of accumulating and allocating indirect costs and the related impact and (iii) Advance Agreements; d. company reorganizations (including acquisitions or divestitures); e. shutdown of facilities; and f. changes in business volume and/or contract mix/type.				
Direct Labor Rates				
11. Did the contractor identify the basis of estimate, including an explanation of the methodology used to develop the direct labor rates (FAR 15.408, Table 15-2, II. *Cost Elements*, B; DFARS 252.215-7002(d)(4)(iv))?				

ADEQUACY CHECKLIST FOR
FORWARD PRICING RATE PROPOSALS

	Adequate?			Comment
	Yes	No	NA	
12. Did the contractor include or identify the location of the supporting documents for the base-year labor rates (e.g., payroll records) (FAR 15.408, Table 15-2, II. *Cost Elements*, B)?				
13. Did the contractor identify escalation factors for the out years, the costs to which escalation is applicable, and the basis of the factors used (FAR 15.408 Table 15-2 I., *General Instructions*, C.(2)(i); DFARS252.215-7002(d)(4)(iv))?				
14. Did the contractor identify planned or anticipated changes in the composition of labor rates, labor categories, union agreements, headcounts, or other factors that could significantly impact the direct labor rates (FAR 15.407-1)?				
Indirect Rates (Fringe, Overhead, G&A, etc.)				
15. Did the contractor identify the basis of estimate, including an explanation of the methodology used to develop the indirect rates (FAR 15.408, Table 15-2, II. *Cost Elements*, C.; DFARS 252.215-7002(d)(4)(iv))?				
16. Did the contractor include or identify the location of the supporting documents for the proposed rates (FAR 15.408, Table 15-2, II. *Cost Elements*, C.; DFARS 252.215-7002(d)(4)(iv))?				

ADEQUACY CHECKLIST FOR
FORWARD PRICING RATE PROPOSALS

	Adequate?			Comment
	Yes	No	NA	
17. Did the contractor identify indirect expenses by burden center, by cost element, by year (including any voluntary deletions, if applicable) in a format that is consistent with the accounting system used to accumulate actual expenses (FAR 15.408 Table 15-2 I., *General Instructions*, D.)?				
18. Did the contractor identify significant contingencies (FAR 15.408 Table 15-2 I., *General Instructions*, C.(2)(ii))?				
19. Did the contractor identify planned or anticipated changes in the nature, type or level of indirect costs, including fringe benefits (FAR 15.407-1)?				
20. Did the contractor identify corporate, home office, shared services, or other incoming allocated costs and the source for those costs, including location and point of contact (custodian) name, phone number, and email address (DFARS 252.215-7002(d)(4)(iv))?				
21. Did the contractor separately identify all intermediate cost pools and provide a reconciliation to show where the costs were allocated (FAR 15.408 Table 15-2 II., *Cost Elements*, C.; DFARS 252.215-7002(d)(4) (iv))?				
22. Did the contractor identify the escalation factors for the out years, the costs to which escalation is applicable, and the basis of the factors used (FAR 15.408 Table 15-2 I., *General Instructions*, C.(2)(i); DFARS 252.215-7002(d)(4)(iv))?				

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	Adequate?			Comment
	Yes	No	NA	
23. Did the contractor provide appropriate detail of the allocation base (DFARS 252.215-7002(d)(4) (iv))?				
24. Did the contractor include or reference the supporting data for the allocation base such as program budgets, negotiation memorandums, proposals, contract values, etc. (DFARS 252.215-7002(d)(4)(xi)?				
25. Did the contractor identify how the proposal reconciles with its long range plans, strategic plan, operating budgets, sales forecasts, program budgets, etc. (DFARS 252.215-7002(d)(4)(xi)				
Cost of Money (COM)				
26. Were Cost of Money rates submitted on Form CASB-CMF (FAR 15.408, Table 15-2, II. *Cost Elements*, F)?				
27. Did the contractor provide a summary of the net book value of assets, identified as distributed and non-distributed?				
28. Did the contractor identify the underlying reports and records to support the net book value of assets (DFARS 252.215-7002(d)(4)(iv))?				
29. Did the contractor identify the Treasury Rate used to compute the facilities capital cost of money?				

ADEQUACY CHECKLIST FOR
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OVERALL ASSESSMENT OF ADEQUACY:
Complete this section after the walkthrough. More than one "No" response above does not necessarily make the proposal inadequate. The audit team needs to assess materiality, sensitivity, and significance of the proposal inadequacies in reaching an overall assessment on the adequacy of the submission.

☐ **ADEQUATE**

☐ **INADEQUATE**

ADDITIONAL COMMENTS *(Provide additional comments as needed to document the audit team's assessment of proposal adequacy)*

The audit team should discuss identified inadequacies with the contractor and contracting officer during the proposal walk-through to ensure a full understanding of all relevant facts. If the proposal is so deficient that an examination cannot be performed, recommend to the requestor that the proposal be returned to the contractor without audit until an adequate proposal is received. The audit team should provide the contracting officer a written summary of the inadequacies in sufficient detail to allow the contracting officer and the contractor to understand the inadequacies and take appropriate corrective action(s). In addition, for any significant deficiencies, the FAO should consider issuing a flash estimating system deficiency report.