



# Cost Analysis vs. Price Analysis

# Objectives

- Understand Price Analysis vs. Cost Analysis
- Define ‘Certified Cost or Pricing Data’ and ‘Data Other Than Certified Cost or Pricing Data’

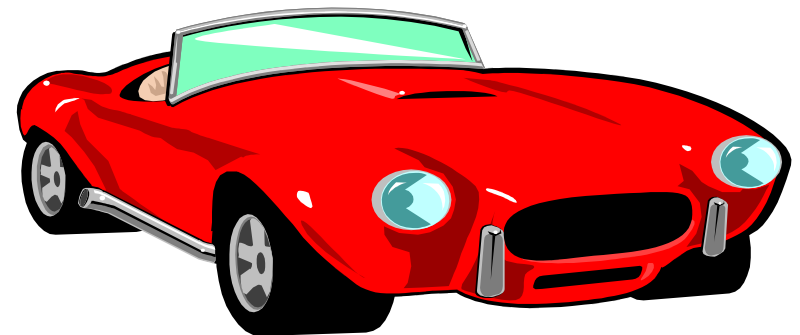
# Price vs. Cost Analysis

- **Price Analysis**
  - Look at total price (fair and reasonable)
  - Certified Cost or Pricing data not required
  - Verify the overall price offered is fair and reasonable
- **Cost Analysis**
  - Reasonableness based on analysis of each cost element
  - Certified cost or pricing data or
  - Data other than certified cost or pricing data

# Cost Analysis

|              |                     |
|--------------|---------------------|
| Labor        | \$200               |
| Material     | 100                 |
| G&A – 20%    | 60                  |
| Total cost   | <u>\$360</u>        |
| Profit – 10% | 36                  |
| Total price  | <u><u>\$396</u></u> |

# Price Analysis



# Price Analysis Techniques

## FAR 15.404-1(b)(2)

- Compare prices proposed by offerors
- Compare proposed prices to price history for the same or similar items (prior price used must have valid basis and should be adjusted based on terms/market/economic factors)
- Use of parametric estimating methods
- Compare to catalog and published price lists
- Compare to independent Government estimates
- Compare to market prices
- Analysis of other pricing information provided by the offeror

# Cost Analysis Techniques

## FAR 15.404-1(c)(2)(i)

- Verification of cost data or pricing data and evaluation of cost elements
  - Reasonableness of proposed costs
  - Projection of cost trends using current and historical cost or pricing data
  - Parametric models and cost-estimating relationships
  - Audited or negotiated direct labor rates, indirect rates, Cost of Money (COM), or other factors

# Cost Analysis Techniques

## FAR 15.404-1(c)(2)

- Evaluate effect of offeror's current practices on future costs to ensure inefficient or uneconomical past practices are not projected into the future.
- Comparison of costs proposed to prior actual costs incurred; previous cost estimates; other offerors cost estimates; Independent Government Cost Estimate; and forecasts of planned expenditures
- Verify that cost submissions are in accordance with FAR, CAS (if applicable)
- Review whether any necessary cost or pricing data have not been submitted or identified by the offeror
- Analyze results of make-or-buy program reviews

# Cost Analysis Considerations

- **Identify** riskiest elements of cost in the proposal
- **Break** selected elements into their components
- **Obtain** contractor basis of estimate for those components
  - Obtain supporting data from contractor
  - Obtain additional supporting data from DCAA, if available
- **Labor**
  - Hours
  - Direct Rates
- **Material**
  - Quantities
  - Unit Cost
- **Indirect Rates**
  - Pool Elements
  - Base Elements
  - Allocation Method



# Certified Cost or Pricing Data and Data Other Than Certified Cost or Pricing Data



# FAR 15.402 - Pricing Policy

FAR 15.402 - *Pricing Policy* states:

“Contracting officers shall --

(a) Purchase supplies and services from responsible sources at **fair and reasonable prices**.



# Certified Cost or Pricing Data and Data Other Than Certified Cost or Pricing Data

- **Certified Cost or Pricing Data (FAR 2.101)**
  - Means cost or pricing data required to be submitted and certified as accurate, complete, and current
- **Cost or Pricing Data**
  - All facts up to the time of agreement on price which prudent buyers and sellers would reasonably expect to have a significant effect on price negotiations
  - Are factual and verifiable

# Requiring Data Other Than Certified Cost or Pricing Data

**FAR 15.403-3(a)(1) states contracting officer shall –**

- Obtain data from government or other secondary sources to determine fair and reasonable price;
- Request data other than certified cost or pricing data from offeror to extent necessary to determine fair and reasonable price;
- Determine if cost data are necessary when there is no adequate price competition
- Require that the data submitted include, at a minimum, appropriate data on prices at which the same or similar items have been previously sold, adequate for determining price reasonableness

# FAR Requirements

- *DAR Tracking Number 2018-00015* The threshold for obtaining certified cost or pricing data is currently \$2,000,000 effective July 1, 2018 and will remain in effect until incorporated into FAR.
- *FAR 15.404-1(a)(3)- Proposal analysis techniques* – Cost analysis shall be used to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required. Price Analysis should be used to verify that the overall price offered is fair and reasonable.

# COPD Exemptions

## *FAR 15.403-1(b) – Exceptions to certified cost or pricing data requirements*

- price based on adequate price competition
- price based on prices set by law or regulation
- commercial item
- waiver granted (see standards in *FAR 15.403-1(c)(4)*)
- modification of a contract for commercial items (see standards in *FAR 15.403-1(c)(3)*)

# DCAA Internet Resources

- **Guidance**
  - Audit Process Overview – Information for Contractors Manual
  - Directory of Audit Programs
  - Contract Audit Manual
  - Select Area of Cost Guidebook (FAR 31.205 Cost Principles)
  - Links to Acquisition Regulations
- **Checklists and Tools**
  - Cost of Money Rates
  - Incurred Cost Electronically (ICE) Model
  - Contractor Submission Portal
  - Adequacy Checklists - Preaward Accounting System, Contract Pricing Proposal, Forward Pricing Rate Proposal, Incurred Cost Submission, Termination Settlement Proposal.
- **Frequently Asked Questions For Contracting Officers, Contractors and COVID-19**



# Small Business Outreach Survey

We would love to hear about your recent experience with the DCAA Small Business Program, as we are committed to providing the best guidance possible and strengthening our nation's Defense Industrial Base. By participating in our survey, you will help us improve our courses, content and provide you with even better support as we continue to grow our program.





# Questions/Comments



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