



Elements of an Adequate Proposal

Further information is available in the
Information for Contractors Manual under Enclosure 3

Today's Discussion

- Price Proposal
 - Price Proposal Adequacy
 - Common Proposal Deficiencies
- Adequate Cost or Pricing Data
- On-line Resources

Proposal Adequacy

- The Contractor is responsible for providing adequate supporting data.
- The contractor bears the burden of proof in establishing reasonableness of proposed costs.
- The basis and rationale for all proposed costs should be provided as part of the proposal so that the government can place reliance on the information as current, accurate, and complete.

Price Proposal Adequacy

How is proposal adequacy determined?

FAR Part 15, Table 15-2 – Instructions for submitting cost/price proposals when certified cost or pricing data are required.

DFARS 252.215-7009 Proposal Adequacy Checklist - New Requirement - Provides location of requested information or an explanation of why the requested information is not provided.



Proposal Adequacy
Checklist

Proposal Cost Elements

- Direct Labor
- Material
- Subcontracts
- Other Direct Costs (ODCs)
- Indirect Rates

Direct Labor

- An adequate proposal should include:
 - A time-phased (e.g., monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category
 - The basis of proposed labor rates and classifications including any escalation factors:
 - DCAA will determine how proposed labor rates were estimated and will need to audit any data that supports these estimates.
 - DCAA will evaluate the basis of labor categories (labor grades) proposed and the hours assigned to each labor category.
 - The basis of proposed labor hours, comparisons of proposed hours to experienced hours for the production of similar items; and any learning curve applications.

Material

An adequate proposal should include a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items. In addition, the consolidated bill of material should provide:

- The basis for pricing (vendor quotes, invoice prices, competitive bids, etc.)
- Include raw materials, parts, components, assemblies, and services to be produced or performed by others.
- Identify the item and show the source, quantity, and price.

Price Competition

- DCAA has found contractors inappropriately claiming there is adequate price competition.
- Contracting officers directed to no longer limit their analysis to the FAR 15.403-1(c)(1)(ii) and (iii) to determine that the offered price is based on adequate competition when only one offer is received.
- Contracting officers may require cost or pricing data, or other than cost or pricing data when only one offer is received.

Subcontracts

An adequate proposal includes the basis of proposed subcontract costs including the prime contractor's cost or price analyses of all subcontractor proposals.

- Submit the subcontractor's cost or pricing data as part of your own cost or pricing data, as well as your analyses of the subcontractor's cost or pricing data per FAR 15.403-4 and FAR 15.403-1(b)
- Include data showing the degree of competition and the basis for establishing the source and price reasonableness
- Include support for commercial item determinations and the basis for establishing the commerciality and price reasonableness
- The prime contractor is responsible for managing its subcontracts per FAR 42.202(e)(2)

Examples of Inadequate Subcontract Analysis Procedures

- No cost or price analysis completed/documentated
- Failure to support the degree of competition or basis for establishing the source selection or price reasonableness
- Failure to perform commercial item determination or price reasonableness
- No documentation on attempts to perform analysis and seek Government assistance when denied access to subcontractor's records

Subcontract Analysis

Adequate Analysis:

Reduced audit time

Cost savings in reduced audit support

Timely audit report

Inadequate Analysis:

Unsupported costs

Adverse audit opinion

Increased audit time and support costs

Negotiation delays

Adequate or Inadequate

Subcontractor's proposed labor rate is an average of 100 manufacturing employees.

The prime contractor's cost analysis states:

“We recalculated the average labor rate and considered the labor rate reasonable.”

Adequate or Inadequate?

Answer

INADEQUATE

Improvements to Consider

Subcontractor's proposed labor rate is an average of 100 manufacturing employees.

In addition to a recalculation consider the following:

- When averaging ensure representative of function being bid
- Validate labor rates by employee to labor records
- Compare labor rates to market labor rates
- Document the scope of the labor rate evaluation

Other Direct Costs

- Other Direct Costs vary but could include items such as:
 - Special tooling
 - Packaging
 - Travel
- The basis for pricing should be included in the proposal (vendor quotes, invoice prices, competitive bids, etc.)

Indirect Costs

- An adequate proposal includes the basis of the proposed indirect expense rates.
- Required support is at least the current year detailed operating budget and a long range forecast/strategic plan covering all the periods of performance.
- The operating budget should be at the department/pool level with expense item detail supporting anticipated contract performance.
- The budget should detail indirect expenses and show the relationship of direct labor (or other indirect expense allocation bases) to sales projections.
- Support also includes comparisons by year of projected overhead expenses by account to prior years' incurred amounts. Out-year projections should be supported by the contractor's analysis of the impact on its rates based on its long range forecast/strategic plan.

Requirements

FAR 15.408 – Table 15-2 II C.

Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates.

Budgetary Data

- Straight-lining out-year rates for future periods with no explanation is not adequate.
- Support for out-year pools and bases should be made based on reasonable sales forecasts and contractor's assumptions for changes, if any, to major cost groupings (e.g., variable, semi-variable, and fixed).
- Small firms with limited budgetary data can use historical costs to estimate out-year rates. However, the contractor should provide trend data with appropriate explanations to support that the historical costs are the most reasonable estimate.

Examples of Inadequate Budgetary Data

- “Flat-lined” indirect rates with no support for using the same rate each year of the period of performance
- No detailed budgetary data provided
- Projections provided for only the first year of proposal’s period of performance

Budgetary Data

Adequate Data:

Better planning

Efficient and timely audits

More accurate cost estimates

Inadequate Data:

More lengthy audits

Adverse audit opinion

Delay in negotiation

Adequate or Inadequate

<u>G&A</u>	<u>G&A</u>	<u>G&A</u>	<u>G&A</u>	<u>G&A</u>	<u>G&A</u>	<u>G&A</u>
2017	2018	2019	2020	2021	2022	2023
20%	5%	10%	10%	10%	10%	10%
Straightlined 2020 and beyond based on 2019 actuals						

Explanation Adequate or Inadequate?

Adequate or Inadequate

INADEQUATE

Improvements to Consider

Straight lining out-years rates for lack of budgetary data is not acceptable.

Consider the following:

- Explain differences in trended rates
- Explain why the rate will not change
- Consider an analysis of fixed, variable, and semi-variable costs
- Any upcoming changes

Adequate Cost or Pricing

- Factual and verifiable
- Includes data in forming a basis for judgment
- All facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determination of costs already incurred

Definition/Requirements

- FAR 2.101 – Cost or Pricing Data

All facts existing up to the time of agreement on price which prudent buyers and sellers would reasonably expect to affect price negotiations significantly.

- FAR 15.406-2

Requires certification that data is current, accurate, and complete.

- Truth in Negotiations (TINA)

(10 U.S.C. 2306(a)) Requires contractors to submit accurate, complete, and current cost or pricing data when negotiating contracts with the Government. It also provides the Government with a price reduction remedy if a contractor fails to comply and provides provisions for interest and penalties.

Examples of Cost or Pricing

A few examples of cost or pricing data:

- Vendor quotations
- Purchase orders
- Make-or-buy decision
- Accounting records
- Information on production methods
- Data supporting projections of business prospects



Cost or Pricing Data

Adequate Cost or Pricing Data:

Better estimating

More timely and effective audits

Accurate follow-on pricing

Inadequate Cost or Pricing Data:

Potential for defective pricing

Longer audits

Poor estimating

Inaccurate follow-on pricing

Adequate or Inadequate

In price proposal dated July 2018, unit 1X52 is estimated at \$2,000/per unit based on:

Purchase order number 124 dated July 6, 2012



Adequate or Inadequate?

Adequate or Inadequate

INADEQUATE

Improvements to Consider

While the purchase order is verifiable, it is not current.

Consider the following:

- Current competitive quote
- Market pricing
- Adjust estimated prices for cost trends and quantity
- Ensure non-recurring costs are not included in unit-price
- Make or buy analysis
- Inventory on hand
- Cost or pricing data if over threshold

Cost or Pricing Data Considerations

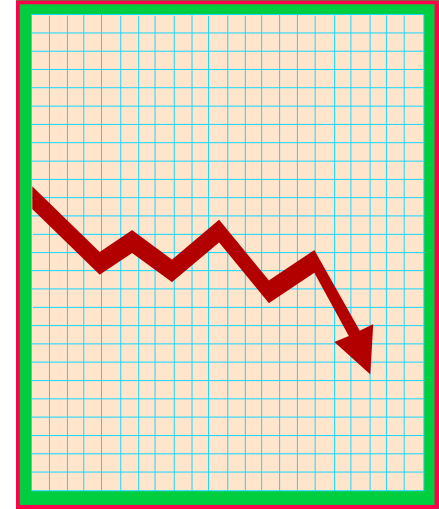
Labor:

- Historical data - its use or nonuse
- Basis for escalation factors
- Turnover
- Compensation issues
- Changes in compensation policy
- Market rates to demonstrate reasonableness
- Historical skill mix to demonstrate basis of estimate
- Improvement curves

Cost or Pricing Data Considerations

Indirect Rates:

- Internal budgets
- Basis of escalation factors
- Changes in headcount
- Sales forecast
- Historical rates/accuracy of previous forecasts
- Ongoing issues (e.g., CAS)
- Any known accounting issues that may impact rates



Historical Data

Estimates based on historical data should consider:

- Learning efficiencies
- Prior non-recurring costs
- Escalating/diminishing costs
- Representative/Non-representative aspects of historical cost used to estimate

Unallowable Costs

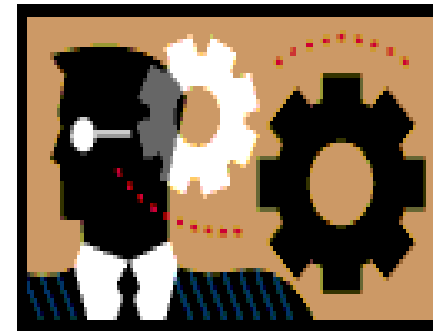
Ensure proposed rates/costs exclude unallowable costs

FAR 31.201-2

- Generally Accepted Accounting Principles (GAAP)
- Allowable per FAR 31.205
- Reasonable
- Terms of the contract
- Allocable
- Cost Accounting Standards (CAS), if applicable

Common Deficiencies

- Inadequate cost or pricing data
- Lack of/inadequate budgetary data
- Failure to perform subcontract analysis



Wrap Up

Pricing proposals should include the following:

- Cost or Pricing Data which supports all proposed costs
- Budgetary Data (or support for proposed indirect rates) for the entire period of performance
- Subcontract Analysis, if applicable

Resources

- DFARS
 - <http://www.acq.osd.mil/dpap/dars/dfarspgi/current/index.html>
 - DoD Proposal Adequacy Checklist
- FAR
 - <https://www.acquisition.gov/browsefar>
- DCAA
 - www.dcaa.mil
 - Information for Contractors Manual

Questions/Comments

