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A Dixon Hughes Goodman Seminar

# International Cost Estimating & Analysis Association - Supplier Cost / Price Analyses

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**Presented By:**

David Eck, CPA Director

Mike Mardesich, CPA Manager

Dixon Hughes Goodman Government Contract Advisory

 @DHG\_GovCon



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# Agenda

- Why Perform Supplier Price Cost Analysis?
- Cost or Pricing Data / Data Other than Cost or Pricing Data
- Price Analysis and Cost Analysis Considerations
- What is a Cost and Applicable Regulations
- Accounting and Estimating Systems
- DHG Supplier Cost Analysis Review Plan and Working Paper Examples
- Common Supplier Proposal Deficiencies

# Why Perform Supplier Cost and Price Analysis?

- Flexibly priced Prime (or upper tier) Contract
- Government will audit procurement actions and files
- Federal Acquisition Regulation (FAR) Part 15, Contract Pricing
- FAR 15.408, Table 15-2, Subcontractor requirements for Prime proposal submissions
- FAR 52.215-12, Subcontractor Cost or Pricing Data.
- Reduce overall costs to the contract and customer

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# CERTIFIED COST OR PRICING DATA VS “OTHER THAN” CERTIFIED COST OR PRICING DATA (FAR 2.101)

- Cost or Pricing Data are facts that, as of the date of price agreement or, if applicable, another date agreed upon between parties that is as close as practicable to the date of agreement on price, prudent buyers and sellers would reasonable expect to affect price negotiations significantly.
  - Factual, not judgmental, and therefore verifiable
  - Includes the data that form the basis for the prospective offeror’s judgment about future cost projections.
  - More than historical accounting data. They are the facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations of costs already incurred.
- In some cases such data must be **certified** by Management.
- **Other than** Certified Cost or Pricing Data may include the identical types of data as certified cost or pricing data, but without the certification. The data may also include, for example, sales data and any information reasonably required to explain the offeror’s estimating process including judgmental factors, mathematical methods, and contingencies.

# Why Certified Cost or Pricing Data?

- 15.403-4 Requiring certified cost or pricing data
  - (a)(1) The contracting officer shall obtain certified cost or pricing data only if the contracting officer concludes that none of the exceptions in [15.403-1\(b\)](#) applies. However, if the contracting officer has reason to believe exceptional circumstances exist and has sufficient data available to determine a fair and reasonable price, then the contracting officer should consider requesting a waiver under the exception at [15.403-1\(b\)\(4\)](#). The threshold for obtaining certified cost or pricing data is \$700,000. Unless an exception applies, certified cost or pricing data are required before accomplishing any of the following actions expected to exceed the current threshold or, in the case of existing contracts, the threshold specified in the contract:
    - (i) The award of any negotiated contract (except for undefinitized actions such as letter contracts).
    - (ii) The award of a **subcontract** at any tier, if the contractor and each higher-tier subcontractor were required to furnish certified cost or pricing data (but see waivers at [15.403-1\(c\)\(4\)](#)).
    - (iii) The modification of any sealed bid or negotiated contract

# CONTRACT PRICING IN FEDERAL PROCUREMENT

- Cost analysis shall be used to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required.
- Price analysis shall be used when certified cost or pricing data are not required. Price analysis should be used to verify that the overall price offered is fair and reasonable.

# Price Analysis Considerations

- Definition of Price Analysis
  - Price Analysis is the process of examining and evaluating a proposed price to determine if it is fair and reasonable without evaluating its separate cost elements and proposed profit.
  - Price Analysis may be, when necessary, supplemented by evaluation of cost elements.
- Price Analysis must be performed for ALL procurement to ensure that the overall price is fair and reasonable.

# BASIS FOR PRICE ANALYSIS

- Price analysis always involves some form of comparison with other prices
  - Proposed prices received in response to the solicitation
  - Commercial prices including competitive published price lists, published commodity market prices, similar indexes, and discount or rebate arrangements
  - Previously proposed prices and contract prices for the same or similar end items if both the validity of the comparison and the reasonableness of the proposed price can be established
  - Parametric estimates or estimates developed using rough yardsticks
  - Independent Government Estimates
  - Prices obtained through market research for the same or similar items



# COST ANALYSIS CONSIDERATIONS

- Definition of Cost Analysis
  - The review and evaluation of the separate cost elements and a proposed profit/fee of:
    - An offeror's or contractor's cost or pricing data or information other than cost or pricing data
    - The judgmental factors applied in projecting from the data to the estimated costs
- The purpose of the evaluation is to form an opinion on the degree to which the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency.

# COST OR PRICING DATA THAT SUPPORTS COSTS

- Include such documents and Analysis as:
  - Vendor quotations
  - Nonrecurring costs
  - Information on changes in production methods and in production or purchasing volume
  - Data supporting projections of business prospects and objectives and related operations costs
  - United-cost trends such as those associated with labor efficiency
  - Make-or-buy decisions
  - Estimated resources to attain business goals
  - Information on management decisions that could have a significant bearing on costs
  - Actual cost data from prior efforts (very important!)

# FORMAT FOR DATA SUBMISSION

- CCPD – FAR Table 15-2 (see next slide)
- Data Other than CCPD
  - May require only limited cost information from the offeror / contractor
  - May contain similar types of data as CCPD but does not require a Certificate of Current Cost or Pricing Data and does not require submission of data in the format at Table 15.2.
- Under TINA requirements, the offeror must disclose all facts that a prudent buyer or seller expects would have a significant impact on price

# DCAA Manual Proposal Example per FAR table 15-2

<u>Element of Cost</u>	<i>Amount</i>	<i>Reference</i>
Engineering Labor	\$452,151	Schedule 1
Manufacturing Labor	26,412	Schedule 1
Direct Labor Overhead @ 56.7%	271,345	Schedules 1 & 3
Material	113,175	Schedule 2
Material Handling Overhead @ 5.0%	<u>5,659</u>	Schedule 5
Subtotal	868,742	
G&A @ 8.0%	<u>69,499</u>	Schedule 4
Estimated Cost	938,241	
Profit @ 10.0%	<u>93,824</u> *	
Total Price	<u>\$1,032,065</u>	

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# TRACEABILITY

- Auditable format
- Cost breakdowns & methodology
- Top – down traceability (summary schedule to subsidiary schedules)
- Basis of estimate
  - What is being estimated?
  - How is it being estimated?
  - What empirical data were used to derive the estimate?
  - Why is the estimate reasonable?

# WHAT IS COST?

- **Direct Cost** (able to be measured and specifically identified with a particular final cost objective)
  - Direct Labor
  - Direct Material
  - Other Direct Costs (travel, consultant services, special tooling and test equipment, preproduction cost, packaging, computer services)
  - Subcontracts
- **Indirect Cost**
  - Overhead
  - G&A Cost
  - Cost of Money

# ACCOUNTING AND ESTIMATING SYSTEM

- Accounting System
  - Understand how you can get historical cost information for both direct and indirect costs.
- Estimating System
  - An acceptable estimating system should provide for the use of appropriate source data, utilize sound estimating techniques and good judgment, maintain a consistent approach, and adhere to established policies and procedures.
  - Typically uses cost data derived from the accounting system, adjunct statistical records, and other sources
  - Characterized by a thorough review of all components, processes, and assemblies.
- It is important to obtain an understanding of the accounting and estimating systems as a first step then document that understanding in summary form.

# EXAMPLES OF WORKING PAPERS

- Review of Request for Proposal (RFP) / Request for Quote (RFQ)
- Request for cost/price analysis
- Review of documentation of accounting and estimating systems
- Supplier proposal/quote and supporting data
- Comparison of overall proposed prices to historical prices
- Summary working papers
- Review of direct labor costs and rates
- Review of materials/subcontracts
- Review of indirect costs and rates
- Review of other direct costs
- Review of profit/fee



# OBTAINING SUPPLIER DATA

- Data Adequacy Checklist
- Pro-forma letter requesting additional data
- Follow-up is important

# ANALYZING MATERIAL AND SUBCONTRACT COSTS

- Adequacy of supplier analysis of proposals and quotes
- Purchase Order/Subcontract price history
- Applying decrement factors
- Analysis of quantities

# ANALYZING FORWARD PRICING RATES

- Comparing proposed rates to historical rates (at least 3 years of historical data)
- Comparison of proposed pool expenses to operating and other budgets
- Analysis of forecasted sales data and development of forecasted base data
- Comparison of proposed pool expenses by major grouping to relevant historical data, and analyzing differences

# ANALYTICAL TECHNIQUES

- Regression Analysis
- Statistical Sampling and Analysis
- Learning/Improvement Curves
- DCAA EZ Quant – Show best practices on using this software, especially downloading spreadsheets

# ANALYZING DIRECT LABOR COSTS

- Rates/Hours
- Recurring vs. Non-Recurring
- Engineering vs. Manufacturing

# PROFIT/FEE ANALYSIS

- Statutory Limitations
- General Factors Affecting Profit or Fee
- Weighed Guidelines Profit Analysis

# COMMON PROPOSAL DEFICIENCIES

- Costs from prior efforts are not disclosed
- Basis of direct labor rates/hours not included
- Comparison of proposed labor rates to historical rates not included
- Bill of material not included
- References to material pricing not included
- Comparison of proposed material prices to historical prices not included
- Subcontract proposals and cost/price analyses of those proposals not included

# COMMON PROPOSAL DEFICIENCIES

- Basis of indirect rates/COM factors not included
- Out-year forecasts of rates not included
- Comparison of proposed rates to historical rates not included
- Budgetary data to support the rates not included



# INADEQUATE PROPOSALS / UNSUPPORTED DATA

- Causes rework
- Increased government involvement
- Significant recommended reductions to supplier proposed costs
- Loss of negotiation power/loss of business
- Seek another supplier

# SUPPLIER REVIEWS

- Prime contractor generally reviews supplier proposals according to FAR requirements (no more / no less)
- Option for suppliers to disclose certain data directly to the government (e.g., direct/indirect rate information)

# RESOURCES AVAILABLE TO SUPPLIERS

- Small Business Administration
- Local Procurement Technical Assistance Center (PTAC)
- Applicable contracting offices
- Prime Contractor Supplier Development Team
- DCAA Guide for Contractors, audit programs, adequacy checklists, etc. ([www.dcaa.mil](http://www.dcaa.mil))
- Armed Services Pricing Manual (ASPM)
- Contract Pricing Reference Guide

# Questions?





## David Eck, CPA

1410 Spring Hill Road, Suite 500  
McLean, VA 22102  
T (214) 334-3233  
david.eck@dhgllp.com



## Mike Mardesich, CPA

1410 Spring Hill Road, Suite 500  
McLean, VA 22102  
T (703) 970-0508  
mike.mardesich@dhgllp.com



@DHG\_GovCon