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CONTRACT PROPOSAL PRICING EVALUATION & COST ANALYSIS

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ONE GEAR IN THE CONTRACT PROCESS



Purpose of Price Analysis / Cost Analysis



Price Analysis vs. Cost Analysis



Performing a PRICE Analysis



Performing a COST Analysis



PURPOSE

The FAR says...

15.404-1 Proposal analysis techniques.

- (a) General. The objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable.

THE CONTRACTING OFFICER IS RESPONSIBLE FOR EVALUATING THE REASONABLENESS OF THE OFFERED PROPOSAL PRICE(S)

YOUR JOB:

HELP CO BY USING PRICE AND/OR COST ANALYSIS TO DETERMINE FAIRNESS, REASONABLENESS, COMPLETENESS

PRICE ANALYSIS VS. COST ANALYSIS



PRICE ANALYSIS — Examining and evaluating a proposed price without evaluating its separate elements and proposed profit/fee

COST ANALYSIS — Review and evaluation of any of the separate cost elements and profit/fee to determine a fair and reasonable price

Proposal evaluation can include price analysis, cost analysis, or BOTH



WHICH ONE DO I DO?

The complexity and circumstances of each acquisition should determine the level of detail of the analysis required

COST ANALYSIS should be performed if reasonableness can't be determined by **PRICE ANALYSIS** alone

IS CERTIFIED COST OR PRICING DATA REQUIRED?

YES — must perform cost analysis & should perform price analysis

NO — must perform price analysis & may perform cost analysis



WAIT...

WHAT IS CERTIFIED COST OR PRICING DATA?

Written certification that the proposal costs are based on current, accurate and complete data

Threshold for obtaining it is \$2M for new contracts, unless...

Exemptions:

Prices are based on adequate price competition

Prices are set by law or regulation

Acquisition of commercial item(s)

Waiver has been granted

Mod of a contract/sub-contract for comm'l items

OK... WHAT'S "FAIR & REASONABLE"?

DAU definition:

Gov't assessment that an offeror's proposed supply or service price can be considered "fair and reasonable" on the basis of applying one or more price analysis techniques.

FAR Part 15 (Contracting by Negotiation) does not explicitly define the term "fair and reasonable."

The concept of a fair and reasonable price has elsewhere been described as the price that a prudent businessperson would pay for an item or service under competitive market conditions, given a reasonable knowledge of the marketplace.

However, Cost Realism DOES NOT = Reasonableness

Costs are...
realistic for the work to be performed,
reflect a clear requirements understanding, and
are consistent with the various elements of the offeror's technical proposal



It analyzes specific cost elements to see if the proposed cost reflects what the agency will actually pay

Required in cost-type procurements because proposed costs don't reflect what will be ultimately be paid

LET'S TALK "COST REALISM" A BIT MORE

Result of realism assessment is the probable cost of performance (which is used to determine 'best value')

Proposed cost or fee may be adjusted (up/down) as a result of the realism analysis

I'M CONFUSED. WHAT'S THE DIFFERENCE?

Realism and Reasonableness are different concepts

REALISM seeks to determine if a proposed price is too low ("buying in")



"Buying in" means submitting an offer below anticipated costs, expecting to increase the contract amount after award or receive follow-on contracts at artificially high prices to recover buy-in (understated costs)

REASONABLENESS seeks to determine if a price is too high



A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of a competitive business (costs are not overstated)

DETAILS OF A PRICE ANALYSIS

- **Somewhat subjective** - conclusions are influenced by individual interpretation
- Used to verify the overall price is fair and reasonable
- **ALWAYS** involves comparison
 - Proposed prices from solicitation
 - Ex: When adequate price competition exists
 - Proposed prices vs. historicals
 - Ex: In a sole source situation

GETTING & COMPARING PRICE DATA

- **Published Federal Supply Schedules**
 - They are already deemed F&R
 - Compare proposed to published
 - Verify items requested are on GSA schedule
 - Compare rate escalation to GSA schedule
 - Review discount if applicable & check math
- **Other proposals from the solicitation**
- **Typically, more than 1 offerer means adequate price competition exists**
 - Voila! You can get averages of the competition
- **IGCE, GSA CALC tool & OASIS**

DETAILS OF A COST ANALYSIS

Total Contract Price =
Direct Cost + Indirect Cost + FCCOM + Fee

Review Proposal — what's being proposed?

Obtain & read all internal docs: RFP, SOW, IGCE, historicals

Data: FPRA's, DCMA & DCAA (labor rates, indirect rates, business system status, etc.), prior contracts

The Tech Eval will review LCats, hrs, mat'l/ODC/ travel, etc., to ensure proposal satisfies reqt's

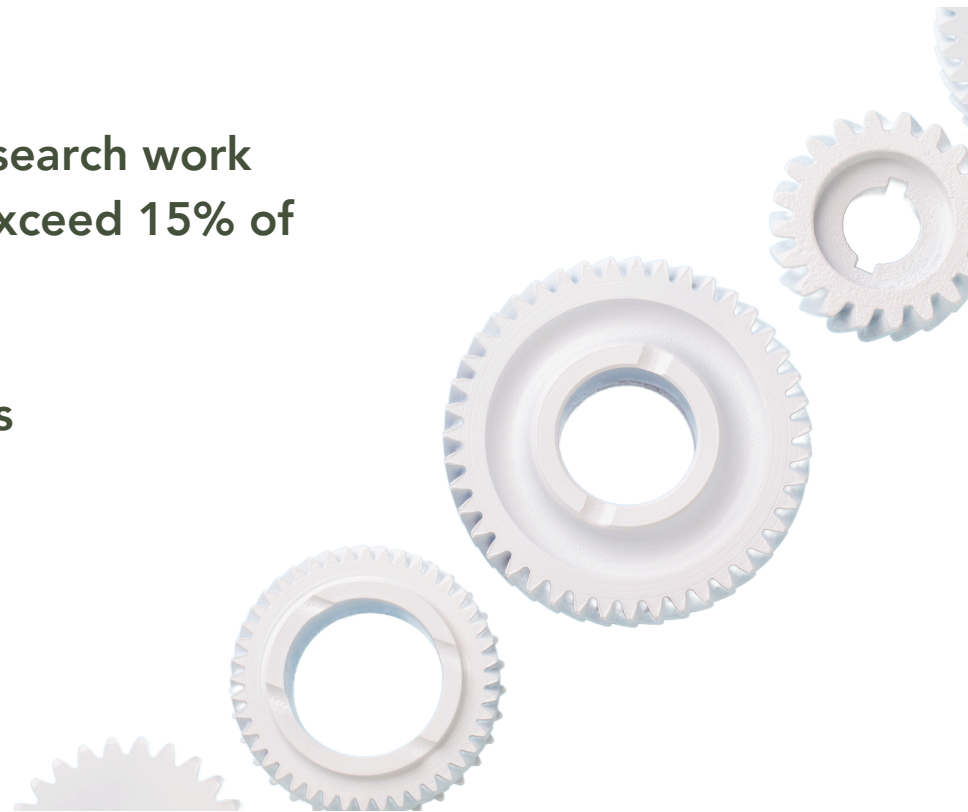


PROPOSAL COST MODEL

- **Gov't-provided cost breakdown spreadsheet by cost element**
- **What's being proposed**, cost bases, how calc'd
- **Model** the proposal: create a working copy
- **Check** math and formulas (duh.)
- **Insert** comparison data and/or IGCE
- **Compare** direct (base, fringe, FBLRs) & indirect rates (OH, G&A) & escalations
- **Calculate** deltas and differences
- For mat'l/ODC's, **verify consistency** with RFP specs — trace unit prices, analyze BOM (if extensive, pick XX% or random sample) — and compute delta's

PROPOSAL COST MODEL (CON'T)

- For Profit / Fee...
- Ensure proposed % within statutory limits
 - "For experimental, development or research work performed under CPFF, fee shall not exceed 15% of contract cost excluding fee"
- Compare % to historically awarded %'ages
- Note differences



| PROPOSED | | | | | | | | | | | | | | | | | |
|----------------------------|-------------------|------------------|-------------------------|-----------------|--------|------------|-----------|--------------|-------------------|-------------------|--------------------------|---------------------|-----------|---------------------------|---------------|-----------------------|--|
| LCATs | Base Wage Rate/Hr | Health & Welfare | Vacation, Holiday & PTO | 401(k) Matching | FICA | FUTA: .60% | SUTA - VA | Workers Comp | Total Labor Costs | General Liability | Indirect Rate - Overhead | Indirect Rate - G&A | Fixed Fee | Fully Burdened Labor Rate | Est Hrs/Yr | Estimated Annual Cost | |
| Project Manager | \$64.06 | \$5.00 | \$8.71 | \$5.61 | \$4.90 | \$0.02 | \$0.14 | \$1.83 | \$90.26 | \$0.22 | \$9.05 | \$8.46 | \$7.56 | \$115.54 | 1,824 | \$210,753.34 | |
| Supervisor | \$54.21 | \$5.00 | \$7.37 | \$4.74 | \$4.15 | \$0.02 | \$0.14 | \$1.54 | \$77.18 | \$0.19 | \$7.74 | \$7.23 | \$6.46 | \$98.79 | 1,824 | \$180,200.02 | |
| Admin Clerk | \$38.41 | \$4.48 | \$5.22 | \$3.36 | \$2.94 | \$0.02 | \$0.14 | \$1.09 | \$55.67 | \$0.13 | \$5.58 | \$5.22 | \$4.66 | \$71.26 | 1,824 | \$129,976.47 | |
| Facility Ops Technician | \$44.57 | \$4.41 | \$6.06 | \$3.90 | \$3.41 | \$0.02 | \$0.14 | \$1.27 | \$63.78 | \$0.15 | \$6.39 | \$5.98 | \$5.34 | \$81.65 | 1,824 | \$148,920.48 | |
| Facility Maintx Technician | \$46.79 | \$4.41 | \$6.36 | \$4.09 | \$3.58 | \$0.02 | \$0.14 | \$1.33 | \$66.73 | \$0.16 | \$6.69 | \$6.25 | \$5.59 | \$85.42 | 1,824 | \$155,806.61 | |
| Equipment Operator | \$46.79 | \$4.41 | \$6.36 | \$4.09 | \$3.58 | \$0.02 | \$0.14 | \$1.33 | \$66.73 | \$0.16 | \$6.69 | \$6.25 | \$5.59 | \$85.42 | 1,824 | \$155,806.61 | |
| | | | | | | | | | | | | | | | 10,944 | \$981,463.53 | |

| COMPETITIVE AVERAGE | | | | | | | | | | | | | | | | | |
|----------------------------|-------------------|------------------|-------------------------|-----------------|--------|------------|-----------|--------------|-------------------|-------------------|--------------------------|---------------------|-----------|---------------------------|---------------|-----------------------|--|
| LCATs | Base Wage Rate/Hr | Health & Welfare | Vacation, Holiday & PTO | 401(k) Matching | FICA | FUTA: .60% | SUTA - VA | Workers Comp | Total Labor Costs | General Liability | Indirect Rate - Overhead | Indirect Rate - G&A | Fixed Fee | Fully Burdened Labor Rate | Est Hrs/Yr | Estimated Annual Cost | |
| Project Manager | \$65.00 | \$5.00 | \$8.84 | \$4.55 | \$4.97 | \$0.02 | \$0.14 | \$1.85 | \$90.37 | \$0.30 | \$10.88 | \$9.14 | \$6.64 | \$117.33 | 1,824 | \$214,014.59 | |
| Supervisor | \$53.00 | \$5.00 | \$7.21 | \$3.71 | \$4.05 | \$0.02 | \$0.14 | \$1.51 | \$74.64 | \$0.25 | \$8.99 | \$7.55 | \$5.49 | \$96.91 | 1,824 | \$176,760.12 | |
| Admin Clerk | \$40.00 | \$4.48 | \$5.44 | \$2.80 | \$3.06 | \$0.02 | \$0.14 | \$1.14 | \$57.08 | \$0.19 | \$6.87 | \$5.77 | \$4.19 | \$74.11 | 1,824 | \$135,169.69 | |
| Facility Ops Technician | \$44.00 | \$4.41 | \$5.98 | \$3.08 | \$3.37 | \$0.02 | \$0.14 | \$1.25 | \$62.25 | \$0.21 | \$7.49 | \$6.30 | \$4.57 | \$80.82 | 1,824 | \$147,422.08 | |
| Facility Maintx Technician | \$47.00 | \$4.41 | \$6.39 | \$3.29 | \$3.60 | \$0.02 | \$0.14 | \$1.34 | \$66.19 | \$0.22 | \$7.97 | \$6.69 | \$4.86 | \$85.93 | 1,824 | \$156,735.69 | |
| Equipment Operator | \$47.00 | \$4.41 | \$6.39 | \$3.29 | \$3.60 | \$0.02 | \$0.14 | \$1.34 | \$66.19 | \$0.22 | \$7.97 | \$6.69 | \$4.86 | \$85.93 | 1,824 | \$156,735.69 | |
| | | | | | | | | | | | | | | | 10,944 | \$986,837.87 | |

| FBLRs | Prop'd | CompAvg | Delta\$ | Delta% |
|----------------------------|----------|----------|----------|--------|
| Project Manager | \$115.54 | \$117.33 | (\$1.79) | -1.5% |
| Supervisor | \$98.79 | \$96.91 | \$1.89 | 1.9% |
| Admin Clerk | \$71.26 | \$74.11 | (\$2.85) | -4.0% |
| Facility Ops Technician | \$81.65 | \$80.82 | \$0.82 | 1.0% |
| Facility Maintx Technician | \$85.42 | \$85.93 | (\$0.51) | -0.6% |
| Equipment Operator | \$85.42 | \$85.93 | (\$0.51) | -0.6% |

| Rates | Prop'd | CompAvg | Delta | Delta% |
|----------|--------|---------|--------|--------|
| 401K | 8.75% | 7.00% | 0.018 | 20.0% |
| Gen Liab | 0.24% | 0.33% | -0.001 | -37.5% |
| Ind OH | 10.00% | 12.00% | -0.020 | -20.0% |
| Ind G&A | 8.50% | 9.00% | -0.005 | -5.9% |
| FixedFee | 7.00% | 6.00% | 0.010 | 14.3% |

| | |
|---------|--------------|
| Prop'd | \$981,463.53 |
| Comp | \$986,837.87 |
| \$Delta | (\$5,374.34) |
| %Delta | -0.55% |

FINISHED THE PRICE/COST ANALYSES. NOW WHAT?

Time to draft... PRICE EVALUATION REPORT

- Explain details of comparison performed
- Document basis of proposed/objective costs & hrs
- What the proposed/objective cost was compared to
- Why it's a good baseline for determining F&R price
- Explain differences proposed vs. objective
- Results & conclusions from comparison

Submit to CO



SUMMARY

- Some degree of Price and/or Cost Analysis is required for each contract action
- There is a difference, and a different way of performing each
- Evaluate proposal costs
- Calculate deltas
- Explore differences

Only the "tip of the spreadsheet"
If you want light reading or ref's...

FAR 15.403/4
FAR 31.201/2/3/5
FAR 3.501
FAR 8.404
FAR 12.603
FAR 13.106
FAR 14.408

One Gear in the Contracting Process



QUESTIONS

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