



DEFENSE LOGISTICS AGENCY

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# Cost Proposal Adequacy Overview

DLA Troop Support Pricing, Policy and Strategy Division

Defense Contract Audit Agency

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THE NATION'S LOGISTICS COMBAT SUPPORT AGENCY





# DLA Pricing and DCAA

- Agenda and Presenters
- Introduction: Cost and Pricing Data and Importance of Adequacy  
Maciej Okulicz-Kozaryn  
DLA Troop Support Competition Advocate  
and Chief of the Pricing, Policy and Strategy Division
- Elements of an Adequate Proposal  
Emily Potteiger  
Financial Liaison Advisor  
Defense Contract Audit Agency
- A Deeper Look at Cost Data Elements and Submission Requirements  
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DLA Troop Support Pricing Team



# Price Reasonableness

- Federal Acquisition Regulation (FAR) requires that all prices be determined as fair and reasonable.
- The preferred techniques for performing price analyses of competitive proposals under a solicitation and/or comparison to historical prices, for the same or similar items
- Where there is a lack of competition or comparison pricing other techniques must be used to include cost analysis



# Cost or Pricing Data

- Where there is no competition and/or other supporting information to evaluate the price, the Government must obtain Certified cost or pricing data when required by 15.403-4
  - Noncommercial sole source procurements or competitive procurements where only one offer is received
  - Procurements valued at \$2M and above
  
- Obtain other than certified cost or pricing data when certified cost or pricing data is not required by 15.403-4
  - Some competitive actions
  - Commercial items
  - Noncommercial procurements under \$2M with no competition
  - AbilityOne nonprofit agencies

# Cost Data Submission



- Audit by DCAA/DCMA is generally required for submitted cost data
  - Certified cost or pricing data
  - Other than certified cost or pricing data for procurement valued over \$2M for AbilityOne nonprofit agencies
- The solicitation will denote certified cost or pricing is required
  - Inclusion of DFARS clauses or guidance from the Contracting Officer
- Nonprofit Agencies for C&T Products:
  - Should provide cost data in accordance to FAR/DFARS Part 15.403 and C&T AbilityOne Checklist
- Must be submitted in accordance to FAR/DFARS requirements
  - Must comply with Generally Accepted Accounting Principles



# Proposal Adequacy Issues

- DLA Troop Support has a problem with submitted cost data proposals being inadequate for audit
  - Incomplete or missing information
  - Does not follow normally accepted principles
    - GAAP, FAR, Cost Accounting Standards
  - Not enough supporting information
- Creates extra work for DLA, DCAA, and vendors
- Leads to extensive delays in awarding contracts
- DLA and DCAA are working on guides and training like this to help vendors and nonprofit agencies



# Elements of an Adequate Proposal

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# 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 Cost Elements



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



- 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.





In addition to a consolidated price summary of individual material quantities, the 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.



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



- 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.
- 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 its long range forecast/strategic plan and the impact it has on the rates.



- 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



# 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



# 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





# 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:

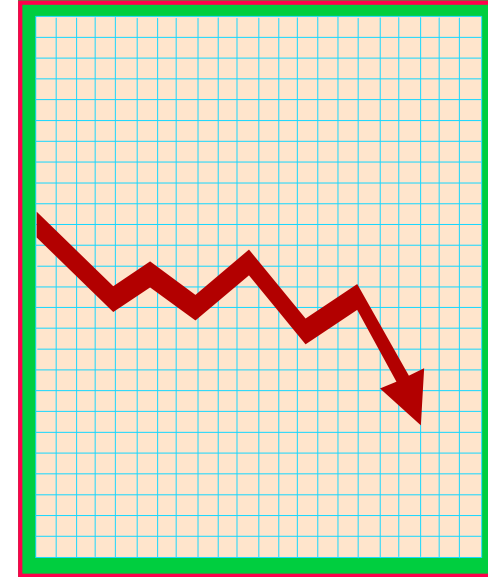
- Historical data - its use or nonuse
- Basis for escalation factors
- Turnover
- Compensation issues
- Changes in compensation policy
- Market rates to demonstrate reasonableness
- Historical skill mix to demonstrate basis of estimate
- Improvement curves



# 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





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





Ensure proposed rates/costs exclude unallowable costs

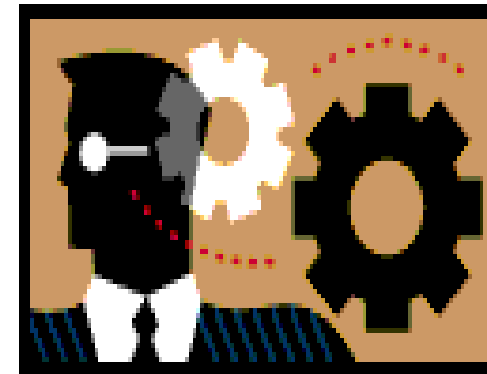
FAR 31.201-2

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



# Examples of Noncompliances

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





- 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](http://www.dcaa.mil)
  - Information for Contractors Manual



# Troop Support Pricing Team

## Cost Elements

Material Cost	Fixed Overhead
Waste Factor Percentage %	General And Administrative Expenses (G&A)
Direct Labor (DL)	Other Cost
Standard Allowable Hours	Profit
Nonprofit Agency Wage Forecast	AbilityOne Program fee (only Mandatory buy)
Losses, Errors & Defects (LED) % of Direct Labor	Proposed FOB Origin Price
Other Direct Cost	Outbound Freight-FOB Destination
Indirect Costs	Total Cost
Manufacturing Overhead O/H	
Variable Overhead	



- An adequate material cost proposal package should always include a cost/price analysis, competing all raw materials, parts, components, assemblies, and services to be produced or performed by others
- Vendors should provide support documentation exhibiting at least 2 independent competitive quotes, clearly showing all such details that an analyst can easily interpret.
- If any materials, parts, components, assemblies, or services to be produced or performed by others during the manufacturing process cannot be competed, a full narrative explanation should be included to explain why.
- If consideration is expected for manufacturing waste created by the change or alteration of any raw materials used in the manufacturing process, indicate this on the consolidated bill of materials



# Direct Labor

- Direct Labor adequacy requires an itemized breakdown of production touch labor hours (by task) as well as data-supported applicable hourly labor rates
  - Prevailing Wage Estimate by Region, typically provided by the U.S. Department of Labor and data-supported Standard Allowable Hours (SAH).
- If there have been any increases to previously-supported Standard Allowable Hours (SAH), quantify that change and provide a clear and supportable explanation of what caused the increase
  - Outline any additional/new labor steps that were not included in the previous manufacturing cycle).
- In most cases, any significant increase will require a comprehensive time study to support those changes.





# Direct Labor

- The following are some examples of what can be taken into consideration for Labor cost:
  - 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

# Indirect Cost



- Indirect Costs such as Fixed and Variable Overhead (O/H) & General & Administrative costs (G&A) as they relate to proposal Adequacy:
- Must provide the rates, by percentage, used and provide verifiable support.
- If there have been any changes to previously supported Indirect Cost rates, quantify that change, and provide an explanation as to why those changes have occurred, and how they can be supported mathematically.
- In most cases, any significant changes will require a full audit to support those changes.
- Indicate how you have calculated and applied your indirect cost outyear estimations, including cost pools/bases.
  - Provide historical trends and annual budgetary data to provide a basis of all Outyear rate estimations.
  - Flatlining or Guesstimating outyear indirect rate estimations and escalations is not acceptable from an accounting perspective. Accurate annual budget preparation over time is required to create trends that effectively support those estimates



- Most inadequate indirect rate forecasts stem from a lack of understanding of indirect rates
  - What indirect rates represent and what they are intended to accomplish
- Without that understanding, the details needed to calculate/support indirect rates are often missing from budgets/forecasts. Examples include:
  - Forecasts of expected sales without showing the impact to individual cost elements (indirect expense pool and base expectations for each year not addressed)
  - Forecasts of rates (%) without breaking out the pool and base components, or only addressing one of the components (if unable to show indirect expense pool AND base expectations for each year, the rate is unsupported)
  - Forecasts only for a specific project, department, or division when there are business-wide indirect expenses such as G&A (indirect expense pool and base expectations are incomplete)
  - “Forecasts” consisting of flatlined historical costs (the impact of anticipated future conditions is not considered)



- Forecast support evaluation focuses on the following questions and makes sense from accounting standpoint:
  - Does it show what the indirect expenses (pools) AND allocation base components are expected to be for EACH forecasted year?
  - Were the expectations developed using a logical method
    - In accordance with policies and procedures or estimating manuals,
    - Based on sales forecasts
    - Historical costs adjusted for reasonably expected changes and unallowable costs, treats each year as a separate period with different circumstances, escalation factors applied are relevant, senior management provided input or involved in the development of the rates, etc.
  - Are the expectations based on complete data
    - The activity of the whole company
    - Incorporates all reasonably expected sales and planned changes
    - Includes all the necessary years and rates, etc.)
  - Can the contractor readily provide the data/support utilized to develop all significant assumptions (including basis for any escalation factors used) ?

# Overhead Cost



- Submitted proposal should not include any unexplained significant changes from a previous proposal or contract
- Explanations are not supported by accounting data
  - Avoid explanations that cannot be independently verified
- If indirect cost percentages significantly increase from one contract to another, provide narrative explanation of what is driving the change
- Carefully review your proposal prior to submission to avoid any any conflicting or contradictory information



- Other Costs that relate to proposal adequacy:
  - List all other costs, both direct and/or indirect, not otherwise included in the core cost categories
  - Provide support documentation exhibiting competitive quotes, clearly showing all such details that an analyst can easily interpret.





- Acceptable profit percentages are based upon a vendor's level of risk associated with contract performance.
- If the profit percentage has increased from the previous procurement, the offeror must provide a supportable, rational explanation to explain the proposed increase.



# General Supporting Information

- As part of the specific information required, you must submit with your proposal all information reasonably required to explain your estimating process, including:
  - The judgmental factors applied, and the mathematical or other methods used in the estimate, including those used in projecting from known data.
  - The nature and amount of any contingencies included in the proposed price.
    - Must show the relationship between line-item prices and the total contract price.
    - Must attach cost-element breakdowns for each proposed line item.
    - Must furnish supporting breakdowns for each cost element, consistent with your cost accounting system.
  - When more than one line item is proposed, you must also provide summary total amounts covering all line items for each element of cost.
  - Whenever you have incurred costs for work performed before submission of a proposal, you must identify those costs in your cost/price proposal.
  
- Note: Acquisitions over \$2 Million may require audit by DCAA and/or DCMA

