Ch 4 - Collecting Information To Support Cost Analysis

- 4.0 - Chapter Introduction
- 4.1 - Recognizing Relevant Information For Cost Analysis
  - 4.1.1 - Examining Related Contract Files
  - 4.1.2 - Examining Relevant Audits And Technical Reports
  - 4.1.3 - Examining Reviews Of Offeror's Systems
  - 4.1.4 - Examining Industry Cost Estimating Guides And Standards
- 4.2 - Requesting Acquisition Team Assistance
- 4.3 - Evaluating Acquisition Team Assistance

4.0 Chapter Introduction

Cost analysis does not begin when you receive the proposal. Just like price analysis, it begins with market research prior to proposal receipt. In this chapter, you will learn to collect and analyze relevant information before you actually begin your analysis of a cost proposal.

4.1 Recognizing Relevant Information For Cost Analysis

Your market research for cost analysis should center on collecting and analyzing information on the cost of efficient and effective contract performance.

- 4.1.1 - Examining Related Contract Files
- 4.1.2 - Examining Relevant Audits And Technical Reports
- 4.1.3 - Examining Reviews Of Offeror's Systems
- 4.1.4 - Examining Industry Cost Estimating Guides And Standards

---

4.1.1 Examining Related Contract Files

Using Historical Contract Information (FAR 15.406-3(a) and 15.404-1(c)(2)(iii)). Review the available files of contracts with the same firm to learn about offeror pricing practices, the quality of pricing information provided by the offeror, and any precedents established in past negotiations.

As with any other historical information, use historical information related to contract costs with care. Always consider differences between the past and the current contracting situations.

Identify Past Problems/Precedents (FAR 15.406-3(a)). Information on problems that may have occurred in previous proposals or past contracts and their resolution can give you useful insight into the accuracy of current estimates. As a minimum, consider the following questions:

- ***Does the offeror have a history of problems in controlling costs?***

Did the offeror experience cost overruns attributable to historical problems that do not or should not exist today? Uncritical use of historical cost projections could lead to excessive contract cost estimates.

- ***Does the offeror have a history of not providing adequate cost estimate support?***

Proposal errors can seriously affect your ability to perform an effective cost analysis. If a firm has a track record of problems in a certain area, take care to assure that similar problems do not exist in the current proposal.

- ***Does the offeror have a history of over/under estimating costs?***

Historical proposal tendencies may help you to identify proposed costs that require special scrutiny.

- ***What were the major cost-related problems and negotiation points in past contract negotiations?***

The price negotiation memorandum (PNM) should identify cost-related problems and major points that came up during fact-finding and negotiation. These same issues may come up in the current proposal. Referring to past PNMs can help you identify key areas of analysis and tell you how they were handled.

- ***How did the negotiated price compare with the proposed price?***

The PNM should explain the differences between the proposed price, the Government objectives, and the price negotiated.

These differences may give you an insight into potential weaknesses in the firm's current proposal.

- ***Were any pricing precedents established during previous negotiations that may affect the current negotiations?***

Past negotiations may have included an agreement on how to handle a specific type of cost in specific situations. Such agreements may establish a precedent that you should consider in the current analysis. However, be careful, do not blindly except precedents that do not make sense in the current situation.

Identify Contracting Situation Differences. Identify any differences between the contracting situations of the past and the current contracting situation. These differences may help you identify cost elements requiring special attention during cost analysis. As a minimum, consider the following questions:

- ***Have there been any changes in production methods?***

If the offeror has improved production methods, leading to reductions in costs (e.g., labor, material, or scrap), then those improvements need to be reflected in projected costs.

- ***Have there been any changes in the offeror's make-or-buy program?***

If the offeror has changed component sources, those changes should be considered in cost estimates. Producing previously subcontracted items in-house will normally increase in-house costs and reduce subcontract costs. Give special attention to the effect such changes have on total cost. If such a change increases total cost, offeror make-or-buy decision criteria require further examination.

- ***Have contract requirements changed ?***

Changes in Government requirements documents or business terms will likely affect costs. For example, if a tolerance has been relaxed or a specific process or inspection is no longer required, projected costs should change accordingly.

- ***Have the offeror's accounting practices changed?***

If the offeror has changed procedures for classification or accumulation of a particular cost, projected costs may be affected. For example, if a particular type of cost was

previously classified as a direct cost, and is now classified as an indirect cost, expect changes in the totals for both cost groupings.

- ***Have business or general economic conditions changed?***

Changes in business or general economic conditions will also affect costs. You must adjust historical costs to consider these changes. The most obvious example is inflation/deflation.

4.1.2 Examining Relevant Audits And Technical Reports

Relevant Audit and Technical Reports (FAR 15.406-3(a)(2)(iii)). Your office may not have direct experience with the offer, but you may be able to obtain audits or technical reports from other offeror proposals. Audits and technical reports can be excellent sources of cost information. Obtain and analyze reports on:

- Other proposals for identical or similar items; and
- Proposed forward pricing rates and factors.

Reports on Other Proposals for Identical or Similar Items. Reports on previous procurements of identical or similar items can provide information on cost elements that were particular problems in the past. Knowledge of past problems can give useful insight into the cost elements that will require special attention in cost analysis. Reports may also give you insight into the best approaches to use in your current cost analysis. Consider the following questions:

- ***How do estimating methods compare with past contracts for the same item?***

Changes in estimating methodology are usually attempts to improve cost estimates. However, a change may be an attempt to mask a weakness in the offeror's proposal.

- ***How do estimating methods for similar items compare with the current proposal?***

Often, similar products are produced by the same workers using the same equipment. Similarity is usually identified by similarity of processes, technical requirements, or product. Comparisons can reveal significant data on cost reasonableness.

Comparisons with costs for similar products, are particularly useful when the product offered has never been produced before.

- ***Are any costs questioned in previous reports similar to the costs proposed for the current contract?***

If you find patterns of questioned costs, closely scrutinize similar cost estimates for the current proposal.

- ***Should the analysis methods documented in previous reports be applied to the current contract?***

These reports may document useful approaches to cost analysis. Different approaches can provide very different perspectives of cost reasonableness.

Reports on Proposed Forward Pricing Rates and Factors. Larger Government contractors typically submit proposals that deal exclusively with the rates and factors used in proposal development. Reports on the analysis of these rates and factors can provide a great deal of useful information on projected offeror operations over the forecasted periods, including:

- Projected business volume;
- Capital expenditures; and
- Work force, skill, and seniority levels.

These reports can be very lengthy. Contact the cognizant administrative contracting officer (ACO) or cognizant auditor prior to requesting them. Based on this contact, you may be able to limit your request to only the specific information that you need for cost analysis. As a minimum, consider the following questions as you review these reports:

- ***What rates have been recommended by the auditor?***

Audit recommendations provide rates that may be useful in cost analysis and contract negotiation, particularly when forward pricing rates have not been negotiated with the Government.

- ***When an ACO is assigned to negotiate a forward pricing rate agreement, what rates are currently negotiated or recommended?***

Never deviate from ACO recommended rates without first contacting the ACO. The ACO may be able to provide more detailed support for the current recommendation. **Never deviate from rates**

set in a Forward Pricing Rate Agreement (FPRA) unless the ACO confirms that the FPRA is no longer in effect.

- ***Has anything changed that might significantly affect the rates****?*

Substantial changes in business volume, acquisition or sale of assets, automation, or other changes can affect indirect cost rates. Such changes could be reasons for requesting a new audit or overturning an FPRA. Analysis of direct and indirect cost forward pricing rates will be considered in more detail later in the text.

4.1.3 Examining Reviews Of Offeror's Systems

Common Government Contractor System Reviews. At major contractor locations, the Government typically conducts a variety of system level reviews. The ultimate purpose of all these reviews is to assure that contractor management systems are capable of providing an acceptable product, on time, and at a reasonable cost. Cost risk to both the Government and contractor increases if the contractor's systems are inadequate. Common system level reviews include:

- Contractor Purchasing System Reviews;
- Contractor Accounting System Reviews; and
- Contractor Estimating System Reviews.

Contractor Purchasing System Review (FAR Subpart 44.3 and 15.404-3(a)). Subcontract and material costs typically comprise more than half of most prime contract cost proposals. The Contractor Purchasing System Review (CPSR) is a periodic Government review of contractor's purchasing records, policies, and procedures. The purpose of this review is to ensure that the Government's interests are being adequately protected by the contractor.

Based on the CPSR results, the cognizant ACO may grant, withhold, or withdraw contractor purchasing system approval.

- If the system is approved, the majority of purchase orders (except high dollar cost-reimbursement orders, etc.) can be placed by the prime contractor without first obtaining Government consent.

- If system approval is withheld or withdrawn, the contractor must obtain Government consent before issuing all but the smallest fixed-price purchase orders.

As a minimum, you should consider the following questions concerning a contractor's CPSR results:

- ***Is the offeror's purchasing system currently approved by the Government?***

One item emphasized in CPSRs is the contractor's subcontract pricing policies and procedures. A disapproved contractor purchasing system is a red flag that the subcontract/material portion of a cost proposal may be overpriced. However, purchasing system approval does not relieve you of your pricing responsibility. Regardless of system approval or lack of approval, you are still responsible for determining if proposed prices are fair and reasonable.

- ***How might purchasing system weaknesses effect contract pricing?***

If you can identify purchasing system pricing weaknesses, you can target those elements of the proposal for more intensive cost analysis.

Contractor Accounting System Review (FAR 15.404-2(c)(4), 30.202-7, and DCAM 9-302).

When the contract price is to be negotiated using cost analysis, the contractor's cost accounting system is usually a major source of offeror cost information. The objective of an accounting system review is to determine whether the firm's accounting system and related practices for accumulating costs are adequate to support contracting decisions requiring accurate, complete, and current cost information.

The cognizant auditor, the Government representative with general access to the firm's accounting and financial records, has primary responsibility for conducting the on-site review. In reviewing accounting system adequacy, the auditor considers the results of prior audits, current findings, and other available information.

When applicable, the auditor's review must consider whether the firm has submitted an adequate Disclosure Statement and whether actual accounting practices comply with the Cost

Accounting Standards Board Cost Accounting Standards (CAS) and the firm's Disclosure Statement. If the auditor reports that the firm has not submitted an adequate Disclosure Statement or that actual accounting practices do not comply, the ACO must evaluate the report and take appropriate action. The ACO makes the final determination on the adequacy of the firm's disclosure and compliance.

As a minimum, you should consider the following questions concerning the results of any accounting system review:

- ***Has the cognizant auditor reported that the offeror's cost accounting system is adequate for contract pricing?***

If the cognizant auditor finds that the firm's accounting system is adequate for contract pricing, you can assume the system has sufficient controls to provide valid and reliable information for contract pricing. It does not mean that all judgments applied in estimate development are reasonable.

- ***Has the cognizant auditor reported that the offeror's cost accounting system is not adequate for contract pricing?***

If the auditor finds that the offeror's cost accounting system is not adequate for contract pricing, carefully examine the reasons for the auditor's finding and the effect that the system failure will have on contract pricing.

  - If the finding results from a general system failure, you should not rely on accounting information provided for contract pricing. You will need to find another method of obtaining adequate cost information or another basis for contract pricing.
  - If the finding results from a system failure in a particular area, you must consider the effect on the contract action you are pricing. For example, in an accounting system which provides for tracking direct labor costs by production lot, inadequate controls over job lot cutoffs may result in inaccurate lot cost data. This type of failure could produce inequitable results when estimating manufacturing direct labor hours. However, if your contract action does not require manufacturing labor, this system failure should have no effect on your cost analysis.

- ***If the firm is subject to full CAS coverage, has the firm submitted an adequate Disclosure Statement and is the firm complying with that disclosure?***

A CAS-covered contractor's accounting system cannot be considered adequate, if the firm has not submitted an adequate Disclosure Statement or is not complying with the disclosure or cost accounting standards. In some cases, the ACO may have not yet made a final determination on adequacy or compliance. The auditor, the contractor, and the ACO may all have different positions. You must consider the effect of any identified deficiency on the contract action you are pricing.

Contractor Estimating System Review (FAR 15.407-5 and DFARS 215.407-5-70). An effective cost estimating system is essential for any firm to consistently provide adequate and reliable cost estimates. To assure estimating system quality, many large contractors are periodically subjected to Contractor Estimating System Reviews (CESRs).

A CESR is normally an audit/contract administration team effort led by a representative from the cognizant audit activity.

The objectives of a CESR are to reduce the time and scope of reviews of individual proposals, to expedite the negotiation process, and to increase the reliability of the offeror's cost proposals. A review is an excellent source of information on estimating system weaknesses and problem areas. In addition to the review report itself, pertinent findings are typically referenced in individual proposal audits.

As a minimum, you should consider the following questions concerning any CESR results:

- ***Is the offeror's cost estimating system currently approved by the Government?***

ACO estimating system approval means that the system has the controls to consistently produce adequate estimates. A disapproved system is a red flag indicating that the firm's estimating system does not consistently provide adequate proposals. Normally, proposals from a firm with a disapproved system should be subjected to closer scrutiny, particularly closer scrutiny by audit professionals.

- ***What estimating system deficiencies were noted during the review, and how might those deficiencies affect this proposal?***

Indicators of a potentially deficient estimating system include:

- Failure to ensure that historical experience is available to, and utilized by, cost estimators, where appropriate;
- Continuing failure to analyze material costs or failure to perform subcontractor cost reviews as required;
- Consistent absence of analytical support for significant amounts of proposed cost;
- Excessive reliance on individual personal judgment where historical experience or commonly used standards are available;
- Recurring defective pricing findings within the same cost element(s);
- Failure to integrate relevant parts of other management systems (e.g., production control or cost accounting) with the estimating system, resulting in an impaired ability to generate reliable cost estimates; and
- Failure to provide established policies, procedures, and practices to persons responsible for preparing and supporting estimates.

4.1.4 Examining Industry Cost Estimating Guides And Standards

Industry Estimating Guides/Standards. In some industries (e.g., construction), there are cost estimating guides and standards that are generally accepted by the industry. Once you identify the tasks required to complete the contract, these guides and standards provide excellent information on the related cost. For other industries, there are various sources of information that you can use as benchmarks in your cost analysis. The table below identifies sources of data that may prove useful in cost analysis:

Sources of Estimating Guides and Standards	
Source	**Information**
Construction Criteria Base Department National Institute of Building Sciences	**Construction** Construction Criteria Base

1090 Vermont Avenue, NW, Suite 700 Washington, DC 20005	*(CCB) System* CD-ROM package that includes Federal Guide Specifications and two estimating guides: *Naval Facilities Cost Estimating System* and *Microcomputer Aided Cost Estimating Support (MCACES)*
Program Manager for Cost Engineering Naval Facilities Engineering Command (NAVFACENGCOM) 1322 Patterson Avenue, SE Washington Navy Yard Washington, DC 20374	**Construction** *SUCCESS Estimating and Cost Management System*, a tri-service system for cost estimating and management
Corps of Engineers Huntsville Engineering Support Center (CEHNC-ED-ES-A) 4820 University Square Huntsville, AL 35816-1822	**Construction** *Microcomputer Aided Costing Support (MCACES)*, a tri-service system which includes unit price data for labor, equipment, and material
R.S. Means Company, Inc. Construction Plaza, 63 Smiths Lane Kingston, MA 02364-0800	**Construction** Building construction cost data, pricing guides, and other information presented in paper-based and electronic formats
John Wiley & Sons, Inc. 605 Third Avenue New York, NY 10158-0012	**Electronics** *Handbook of Electronics Industry Cost Estimating Data* by Theodore Taylor, a collection of time standards and rules of thumb for cost estimating
CCDR Project Office Office of the Secretary of Defense Program Analysis and Evaluation 1111 Jefferson Davis Highway Arlington, VA 22202	**Weapon Systems** The *Contractor Cost Data Reporting (CCDR) System* database for estimating Major Defense Acquisition Program costs
RAND 1700 Main Street P.O. Box 2138 Santa Monica, CA 90407-2138	**Weapon Systems** RAND publishes research on a wide variety of issues related to cost estimating and analysis. Products include the Defense Systems

	Cost Performance Database (DSCPD). This database includes cost growth data derived from information in Selected Acquisition Reports, as well as a range of potential explanatory variables, including cost, schedule, and categorical information.
Electronics Systems Center (ESC) Air Force Materiel Command Hanscom AFB, MA	**Aircraft Avionics** *Automated Cost Estimating Integrating Tools (ACEIT)* estimating system and database for estimating the cost of electronic warfare systems
Space and Missile Systems Center (SMC/FMC) Los Angeles AFB, CA	**Software** *Software Database (SWDB)*, of historical data on software development and maintenance
U.S. Army Cost and Economic Analysis Center 5611 Columbia Pike Falls Church, VA 22410-5050	**Installation Support** *Standard Service Costing (SSC)* service and performance data from on-going Army initiatives combined and statistical techniques for use in cost estimating
Naval Center for Cost Analysis 1111 Jefferson Davis Highway, Suite 400 Arlington, VA 22202-4306	**Microwave and Digital Systems** *Microwave and Digital Cost Analysis Model (MADCAM)* for estimating the cost of electronic boxes as a function of their distinguishing design characteristics and component technology
Naval Air Systems Command 1421 Jefferson Davis Highway, Arlington, VA 22243-1000	**Aircraft Modification** *Naval Aviation Modification Model (NAMM)* database
Air Force Cost Analysis Agency 1111 Jefferson Davis Highway, Suite 403 Arlington, VA 22202	**Aircraft** *Aircraft Cost Handbook*, a single source of consistent

	and comprehensive cost and related information describing the development and production phases of several fixed-wing, rotor-wing, and aircraft engine programs
	Aircraft *Multi-Aircraft Cost Data & Retrieval (MACDAR)* database of contractor labor hours and material costs at the lowest levels available
	Avionics Database of cost, programmatic, and technical avionics data
	Spacecraft Cost estimating relationships (CERs) for estimating development and production costs for the space portion of satellite programs
	Launch Vehicles *Launch Vehicle Cost Model (LVCM)*, cost estimating relationships (CERs) to estimate liquid stage structures; liquid fuel engine; power system; avionics/ power system; guidance and control system; telemetry, tracking, and command system; payload fairing; and integration.
	Space-Flight Instruments *Multi-Variable Instrument Cost Model (MICM)*, multi-variable cost estimating relationship (CER) to estimate the total prototype cost of building a space-flight instrument.
	Spacecraft/Vehicle Systems

	NASA/Air Force Cost Model 96 (NAFCOM96), estimates the development and production costs of up to five spacecraft/vehicle systems and ten WBS levels for either DoD or NASA systems.
	Scientific Instruments *Scientific Instrument Cost Model (SICM)*, a set of design, development, test and evaluation (DDT&E) and flight unit cost estimating relationships (CERs) and the supporting database.
	Infrared (IR) Sensors *Strategic and Experimental IR Sensor Cost Model II* estimates the developmental manufacturing costs for strategic and experimental IR sensors
	Unmanned Spacecraft *Unmanned Spacecraft Cost Model (ASCM7)*, estimates hardware costs of earth-orbiting, unmanned space vehicle programs (including payloads) using cost estimating relationships (CERs)

4.2 **Requesting Acquisition Team Assistance**

Types of Cost Analysis Assistance (FAR 1.102-3, 1.102-4, and 15.404-2). The offeror's cost proposal is the offeror's estimate of reasonable contract costs and profit. This estimate is normally based on a combination of technical information, accounting information, and judgment. Therefore, you will normally need technical and accounting assistance from other members of the Government Acquisition Team as you evaluate these estimates.

Identify the team assistance necessary for proposal analysis as early as possible in the acquisition process. Early communications with team members will assist you in determining the specific areas in which you need assistance, the extent of assistance required, a realistic analysis schedule, and information requirements for cost analysis.

- **Technical Analysis Assistance.** A technical analysis is an examination and evaluation to determine and report on the need for and reasonableness (assuming reasonable economy and efficiency) of the resources proposed by the offeror to complete the contract.
    - To be effective, the personnel performing the technical analysis must have the necessary specialized knowledge, skills, experience, or capability in:
    - Engineering,
    - Science, or
    - Management of the type of effort required to complete the contract.
    - While any area of the proposal may require technical analysis, the following are some of the areas typically evaluated:
    - Material quantities;
    - Labor hours;
    - Special tooling and test equipment types and quantities;
    - Unique facility requirements; and
    - Associated factors set forth in a proposal.
- **Audit Analysis Assistance (DCAM 1-104.2).** Contract audits are performed by Government auditors who have training and experience in analyzing accounting records and information from related offeror management systems. These auditors are the only Government personnel with general access to the contractor's books and financial records. The contract audit objective is to assure that the contractor has adequate controls to prevent or avoid wasteful, careless, or inefficient practices. Areas of particular audit concern include the:
    - Adequacy of the contractor's policies, procedures, practices, and internal controls relating to accounting, and procurement;
    - Adequacy of the contractor's management policies and procedures affecting costs;
    - Adequacy and reasonableness of the contractor's cost representations;
    - Adequacy and reliability of the contractor's records for Government-owned property;

    - Financial capabilities of the contractor; and
    - Appropriateness of contractual provisions having accounting or financial significance.

Sources of Technical Analysis Assistance (FAR 15.404-2). Members of the Government Acquisition Team who are familiar with the offeror and contract technical requirements can usually perform the best technical analysis of an offeror's proposal. In some cases, you may need to request more than one technical analysis, because no one person or office is familiar with all technical aspects of the proposal. Typically, technical analysis assistance may come from one or both of the following sources:

- **In-House Technical Assistance.** In most contracting situations, in-house members of the Government Acquisition Team will be your primary source for technical analysis assistance, because in-house personnel are most familiar with contract requirements and any unique aspects of the acquisition environment.
- **Field Pricing Assistance.** Field pricing assistance may be available from field contract administration activities, such as those operated by the Defense Contract Management Command (DCMC). Personnel in these activities may work in the contractor's facility, or travel from plant to plant in a particular geographic area. In either case, they can provide valuable insights based on their knowledge of contractor facilities and operations. Personnel available to provide field pricing technical assistance typically include, but are not limited to the following:
    - Administrative contracting officers;
    - Price analysts;
    - Engineers;
    - Small business specialists; and
    - Legal counsel.

Sources of Audit Assistance (FAR 15.404-2). Available sources of Government audit assistance differ from agency to agency. Consult agency procedures to determine which of the following types of audit assistance are available to you:

- **In-House Assistance.** Your contracting activity may have in-house financial management personnel assigned to act as contract auditors.
- **Inspector General Assistance.** Your Agency Inspector General office may perform contract audits as well as internal Government audits.

- **Field Pricing Assistance.** You may have access to auditors assigned to contractor plants or specific geographic regions. The Defense Contract Audit Agency (DCAA) is the primary field pricing audit activity servicing the DoD and most other agencies. In fact, most Government contract audits are performed by DCAA personnel.

Assistance For Prime Contract Proposal Analysis (FAR 15.404-2 and DFARS 215.404-2). For each proposal, you must determine what type of Government Acquisition Team assistance you will need for your cost analysis.

- **In-House Assistance.** In most contracting situations, in-house members of the Government Acquisition Team will be your primary source for technical analysis assistance. Consider your specific analysis needs before contacting individuals or organizations for assistance.
- **Field Pricing Assistance.** Always consider the risk to the Government and agency requirements before requesting field pricing assistance.
    - In higher risk situations, you will likely need field pricing assistance. For example, the DoD recommends that contracting officer consider requesting field pricing assistance for:
    - Fixed-price proposals exceeding the cost or pricing data threshold;
    - Cost-reimbursement proposals exceeding the cost or pricing data threshold from offerors with significant estimating system deficiencies; or
    - Cost-reimbursement proposals exceeding $10 million from offerors without significant estimating deficiencies.
    - In lower risk situations, you should normally not need field pricing assistance. For example, the DoD recommends that contracting officers not request field pricing assistance for proposed contracts or modifications in an amount less than that specified above, unless a reasonable pricing result cannot be established because of:
    - A lack of knowledge of the particular offeror; or
    - Sensitive conditions (e.g., a change in, or unusual problems with, an offeror's internal systems).

Assistance For Subcontract Proposal Analysis (FAR 15.404-2 and 15.404-3). The prime contractor or higher-tier subcontractor is responsible for:

- Conducting appropriate cost or price analyses to establish the reasonableness of proposed subcontract prices; and
- Including the results of those analyses in the prime contract price proposal.

You should only request audit or technical field pricing assistance to analyze a subcontract proposal if you believe that such assistance will serve a valid Government interest (e.g., determining total price reasonableness). Give special consideration to requesting subcontract audit or field pricing assistance when one or more of the following situations exist (DFARS 215.404-3(a)):

- The business relationship between the prime contractor and the subcontractor is not conducive to independence and objectivity;
- The prime contractor is a sole source and the subcontract cost represents a substantial part of the proposed contract cost;
- The prime contractor has been denied access to the prospective records;
- The contracting officer determines that factors (e.g., proposed subcontract dollar value) make audit or field pricing assistance critical to a fully detailed prime contract proposal analysis;
- The contractor or higher-tier subcontractor has been cited for having significant estimating system deficiencies in the area of subcontract pricing, especially a failure to perform:
  - Adequate subcontract cost analyses or
  - Timely subcontract analyses prior to negotiation of the prime contract with the Government; or
- A lower-tier subcontractor has been cited as having significant estimating system deficiencies.

Tailor Assistance Requests to Analysis Needs (FAR 15.404-2). Identify analysis needs before requesting analysis assistance. Remember that early communications with Government Acquisition Team members will assist you in determining the specific areas for which assistance is needed, the extent of assistance required, a realistic analysis schedule, and information requirements for cost analysis.

If current and reliable technical or audit information is already available, you may not need assistance or you may be able to limit your assistance request to an informal

verification that available information is still current. For example:

- If there is already information available from an existing audit (completed within the last 12 months), **never** request a separate preaward audit of indirect costs **unless** the contracting officer considers the information already available inadequate for determining the reasonableness of proposed indirect costs.
- If there was an indirect cost audit within the last 12 months but no forward pricing rate agreement, contact the cognizant auditor/ACO to obtain information on the current Government rate recommendations.
- If you have a reliable record of the offeror's current forward pricing rate agreement for direct labor rates, there is no reason to request a direct labor rate analysis from the cognizant auditor or ACO.
- If the offeror's proposal states that the firm has proposed indirect cost forward pricing rates in accordance with an established forward pricing rate agreement, verify that statement with the responsible ACO. If the ACO verifies that the proposed rates are part of a forward pricing rate agreement, no further indirect cost rate analysis is required. However, you should advise the ACO if you believe that rates for all contracts will be affected by your proposed contract.
- If you have a reliable record of recent production costs for an identical item, do not request an audit of production cost history.
- If the Government and the contractor have established pricing formulas, determine whether changes in production methods or market conditions will affect those formulas. If not, further technical or audit analysis should not be necessary. If conditions have changed, request analyses to consider the effect of those changes.
- If the offeror uses standard component prices, determine whether changes in production methods or market conditions will affect those prices. If not, further audit analysis of material prices for those components should not be necessary. If conditions have changed, request an audit to consider the effect of those changes.

Oral Requests for Assistance (FAR 15.404-2(b)(1)). You are encouraged to make face-to-face or telephonic requests for pricing assistance whenever practical. Such requests are particularly appropriate when you only need to verify or obtain existing information. However:

- All requests for analysis assistance must consider agency and buying office requirements.
- When requesting assistance from another activity, you should first contact the assisting activity to determine what means of communications are acceptable for assistance requests.

Record all oral requests in the contract file. The record should include such information as the request date, person contacted, and the assistance requested.

Written Requests for Proposal Analysis Assistance (FAR 15.404-2). Requests for in-depth proposal analysis should normally be made in writing. When practical, meet with the analyst to deliver the request. When distance or other factors make it impractical to carry the request to the analyst, use E-mail or FAX to transmit short requests without attachments. Use mail or expedited shipment for more voluminous requests.

As you prepare each request, ensure that you:

- Describe the extent of assistance needed.
- Identify the **specific areas** for which input is required.
- Include the information necessary for the requested analysis or assure that it is provided to the auditor or technical analyst.
    - A request for technical analysis:
    - Should include a copy of all technical information submitted by the offeror on the cost(s) involved.
    - Should normally not include dollar amounts. Technical personnel are not normally the best sources of labor or overhead rate analysis. Including such information in your request may cloud their analysis of technical issues.
    - A request for audit assistance should include a:
    - Complete copy of the offeror's cost proposal;
    - Copy of any technical analyses already completed; and
    - A request that a auditor concurrently forward the audit report to the requesting contracting officer and the ACO if an audit and technical analysis are both requested.
- Assign a realistic deadline for receipt of any requested report. An unrealistically short deadline may reduce analysis quality. A poor report may make it impossible to determine whether the proposed price is fair and reasonable.

- Encourage analysts to submit all but the briefest responses in writing. However, you should also encourage analysts to use E-mail or FAX to transmit short responses without attachments. More voluminous responses should be submitted by mail or expedited shipment.

Retain a copy of the request in the contract file.

Requests for Subcontract Proposal Analysis Assistance (FAR 15.404-2 and DFARS 215.404-2(c)).

When you request analysis of a subcontract proposal, your request should include a copy of the following (when available):

- Any review prepared by the prime contractor or higher-tier subcontractor;
- Relevant parts of the subcontractor's proposal;
- Cost or pricing data or information other than cost or pricing data provided by the subcontractor; and
- The results of the prime contractor's cost or price analysis.

Assure that you follow agency procedures in requesting any subcontract analysis. For example, DoD contracting officers should notify the appropriate contract administration activities when extensive, special, or expedited field pricing assistance will be needed to review and evaluate a subcontractor's proposal.

As you prepare your request, assure that all personnel involved understand that you must obtain the subcontractor's consent before the Government can provide the results of a Government analysis of a subcontract proposal to the prime contractor or higher-tier subcontractor. If the subcontractor withholds consent, you can only provide information on a range of unacceptable costs for each cost element and you must provide that range in a way that prevents disclosure of subcontractor proprietary information (DFARS 215.404-3(a)(iii)).

Requests for Equitable Adjustment Analysis Assistance (FAR 15.404-2(a)(4) and 43.204(b)(5)).

When preparing a written request for field pricing assistance for an equitable adjustment, provide a list of any significant contract events which may aid in the analysis. This list should include the:

- Date and dollar amount of contract award and/or modification;
- Date of submission of initial contract proposal and dollar amount;
- Date of alleged delays or disruptions;
- Performance dates as scheduled at date of award and/or modification;
- Actual performance dates;
- Date entitlement to an equitable adjustment was determined or a contracting officer decision was rendered if applicable;
- Date of certification of the request for adjustment if certification is required; and
- Dates of any pertinent Government actions or other key events during contract performance which may have an impact on the contractor's request for equitable adjustment.

4.3 Evaluating Acquisition Team Assistance

Oral Responses (FAR 15.404-2(b) and 15.404-2(d)). Most technical and audit responses are written. However an oral response may be particularly appropriate when:

- The analyst is only verifying information already available to the contracting officer (e.g., forward pricing rates); or
- Effective and timely analysis is threatened by a lack of information. For example, the cognizant auditor or ACO, as appropriate, should contact the contracting officer if proposal deficiencies are so great as to preclude review or audit or if the offeror or contractor denies the auditor access to any records considered essential to the conduct of a satisfactory review or audit. Oral notifications must be confirmed promptly in writing including a description of deficient or denied data or records.

Assure that each oral response is clearly recorded in the contract file, including (as a minimum) the date, person providing the information, and the information provided.

Written Reports (FAR 15.404-2(b) and DCAM 10-304.8). Encourage analysts to submit all but the briefest responses in writing. However, you should encourage analysts to use e-mail or fax to transmit short responses without attachments. More voluminous responses should be submitted by mail or expedited shipment.

Retain a copy of any written response in the contract file and consider the results as you prepare the Government pricing position.

- **Technical Reports.** Technical reports typically accept an offeror's proposal or present an alternative position based on a different analysis of the available facts. Differences between the proposed amount and the recommended amount are generally identified as "exceptions." These exceptions may result from a variety of reasons including: a different approach to estimate development, different estimating assumptions, or the use of additional facts not used by the offeror.
- **Audit Reports.** Audit reports on cost estimates are based on a similar analysis approach. However, audit reports typically assign exceptions to the offeror's proposal to one of three categories:
  - **Unallowable costs.** These are costs which (under the provisions of a pertinent law, regulation, or contract) cannot be included in the contract price.
  - **Unsupported costs.** These are costs which the auditor cannot evaluate as allowable or unallowable, because there is not enough information for analysis. For example, auditors commonly classify oral vendor quotes as unsupported, because there is no factual evidence to support the amount quoted.
  - **Unresolved Costs.** These are costs that have not yet been evaluated. Typically costs are associated with proposals from subcontractors or transfers from other operating units of the firm. The auditor may have requested an assist audit, but not received the results from the auditor responsible for the assist audit.

Identify Report Strengths and Weaknesses. As you evaluate each analysis report, use the following questions to identify analysis strengths and weaknesses:

- ***Does the report answer the questions in your request?***

If your assistance request identified specific proposal areas requiring analysis, **the analysis report should address** each area identified.

- ***Does the report explain the evaluator's position in clear language that you can understand?***

You are responsible for integrating the proposal analysis into the overall Government position. However, you are not responsible for rewriting the technical or audit report. Each report should clearly communicate its recommendations and stand on its own.

- ***Does the report support its conclusions?***

The "looks good to me" or "based on my experience and judgment" reports are of little use in negotiations. Each conclusion, whether it agrees with or disputes the offeror's proposal, should be accompanied by an understandable rationale. A good evaluation will tell you what was analyzed and how it was analyzed.

Identify Inconsistencies Within Each Report. Analysis reports may contain inconsistencies, (i.e., one part of an analysis report may accept the offeror's estimating approach, while another part of the same report rejects the same approach in similar circumstances). An analysis report with such inconsistencies will likely be of limited value to you as you prepare your pricing objectives. Identify any analysis inconsistencies, so that you can resolve them.

As you evaluate analysis report(s), use the following questions to identify inconsistencies within each report:

- ***Did a single analyst provide inconsistent analysis?***

An analyst may only report the results from using a particular analysis technique when the resulting cost estimate is lower than that proposed by the offeror. Analysis results that result in an estimate higher than those proposed by the offeror are not reported. This should not happen. If the technique produces estimates that are more accurate than the estimates submitted by the offeror, the results should be reported regardless of whether the estimated cost is higher or lower than the costs proposed. Remember, your objective is to obtain a fair and reasonable price.

- ***Did multiple analysts working on the same report provide inconsistent analyses of similar elements of cost?***

Different analysts involved in preparing the same report may take different positions on the use of a particular estimating technique or estimating assumption. This is particularly likely when there is inadequate coordination between multiple analysts.

Identify Inconsistencies Between Analyses. As you review different analyses of the same proposal, you may find apparent inconsistencies. One report accepts a cost estimate while another report takes exception to all or part of the same estimate. Such inconsistencies typically occur when different analysts have different professional perspectives or different guidelines for analysis.

- ***Are there any inconsistencies between the technical and audit analyses?***

An auditor might take exception to an offeror's round-table cost estimate accepted by a technical analyst. Why? Auditors base their analyses on facts and projections made from those facts. A round-table estimate may be based on judgment with little or no factual support. As a result, the auditor takes exception to the cost as unsupported. On the other hand, a technical analyst may look at the estimating situation and ask, "Does the estimate make sense, in this situation?" If it does, the technical analyst may accept the estimate. Same estimate, different analysis results.

- ***Are there any inconsistencies between in-house and field analyses?***

In-house and field personnel may have different perspectives concerning the cost analysis. In-house personnel may be more familiar with the contract requirements. Field personnel may be more familiar with the offeror's estimating and operating procedures.

Resolve Apparent Weaknesses and Inconsistencies (FAR 15.406-1(a)). As you review report results, reconcile any inconsistencies that you identify. Technical and audit reports should provide key inputs to your cost analysis. Report weaknesses and inconsistencies, bring the value of these reports into question.

You may be able to resolve weaknesses and inconsistencies without assistance from the report writer. More likely, you will need to contact the report writer for support.

- **Minor concerns.** You can usually obtain minor clarification or additional support by contacting the report writer informally. This form of contact has the advantage of direct communication without barriers of protocol.

- **Major concerns.** If you have major concerns about the accuracy or value of a particular written report, you should make a written request for clarification. A written request provides documentation of your concern and indicates the need for a written response.

Check Reality. Keep the results of all analyses in perspective. Don't just consider the numbers. Use your own common sense.

For example: Material cost per unit has been increasing over the five years that the offeror has produced similar units. The Government analyst based a material cost recommendation on the average material unit price over the five years of production. In developing this recommendation, the analyst averaged the cheaper units from five years ago with the more expensive units used in recent production. The history is valid, the calculations are correct, but the recommendation makes no sense unless prices are expected to decline for some reason.