



CUI

Elements of an Adequate Proposal

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

CUI

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CUI Category: PRVCY
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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 in the proposal so



FAR Part 15, Table 15-2 – Instructions for submitting cost/price p

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.





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/documented
- 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



Adequate or Inadequate

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

The prime contractor's cost anall.intcoston





Answer

INADEQUATE



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.)





Requirements

FAR 15.408 – Table 15-2 II C.

Show trends and budgetary data to provide-



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>

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



Definition/Requirements

- FAR 2.101 – Cost or Pricing Data



Examples of Cost or Pricing

- 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





Adequate or Inadequate

INADEQUATE



Improvements to Consider

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

Consider the following:

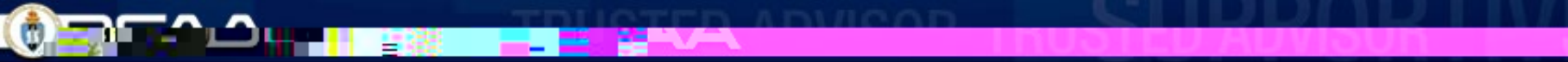
- Current competitive quote
- Market pricing
- Adjust estimated prices for cost trends and quantity
- Ensure non-recurring costs are not included in unit-price
- Make or buy analysis
- Inventory on hand
- Cost or pricing data if over threshold



Cost or Pricing Data Considerations

Labor:

- Historical data - its use or nonuse
- Basis for escalation factors
- Turnover
-



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

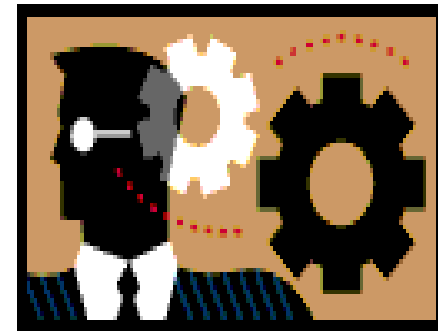
FAR 31.201-2

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



Examples of 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

