

What Makes a Good Price Proposal to the Government?

Helping You Navigate the Maze of Government Contracting



Redstone
Government Consulting



Instructor:

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David (Dave) Fix

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- **35+ Years with Defense Contract Audit Agency**
 - Regional Audit Manager (*DCAA Adjunct Instructor as well*)
 - Regional Special Programs Manager
 - Chief, Investigative Support
 - Branch Manager (CONUS & OCONUS), Supervisory Auditor, Technical Specialist, Auditor
 - **36 Years as Air Force Reservist-last duty: Chief, Contracting Inspections, Air Force Reserve Command, Robins AFB, Georgia, Retired Rank: Lt. Col.**
 - **Nearly 3 years with Redstone**
 - Business Systems, CAS, FAR, DFARS, Forward Pricing Proposals, Claims
- BS in Accounting, State University of NY at Buffalo; MS, Accounting – Western New England College (now University); Graduate of Department of Defense Executive Leadership Development Program; CPA (Active Licenses) – Alabama, Georgia, & North Carolina; Certified Fraud Examiner (CFE)*

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Learning Objectives



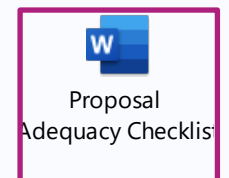
- A “good proposal” starts with a “good estimating system” and resultant basis of estimate
- What’s expected?
- Creating a basis of estimate
- Is it convincing and supportable?
- Best practices

A “good proposal” starts with a “good estimating system” and resultant basis of estimate

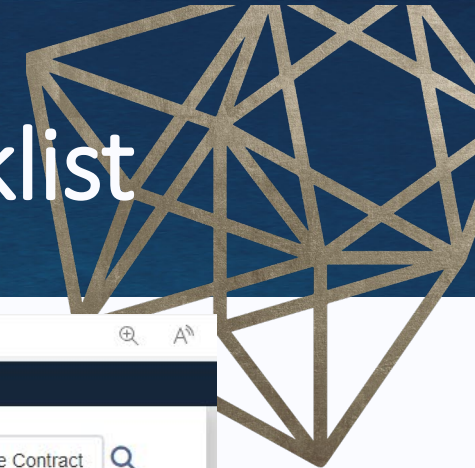


What makes a “good proposal?”

- ✓ Addresses RFP or RFQ statement of work (SOW) and other specifications such as performance work structure (PWS)
- ✓ Complies with FAR 15.408, Table 15-2
- ✓ Complies with regulations – compliance adequacy checklist
- ✓ Provides a basis for a “fair and reasonable price” for both contractor and Government
- ✓ Provides the best opportunity in a competitive procurement
- ✓ Is a process from teaming the company’s technical, financial, and acquisition personnel that provides for competing and winning contracts
 - ✓ An entity’s “*Estimating System*”
 - ✓ Most fundamental, “*Basis of Estimates*” or BOEs



Where to find the proposal compliance checklist



https://www.dcaa.mil/Checklists-Tools/Contract-Pricing-Proposal-Adequacy-Checklist/

An official website of the United States government [Here's how you know](#)

 **DCAA**
DEFENSE CONTRACT AUDIT AGENCY

Search Defense Contract

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HOME > CUSTOMERS > CHECKLISTS & TOOLS > CONTRACT PRICING PROPOSAL ADEQUACY CHECKLIST



CONTRACT PRICING PROPOSAL ADEQUACY CHECKLIST

DFARS 252.215-7009 - Proposal Adequacy Checklist

INDEPENDENT TEAM TRUSTED ADVISOR SUPPORTIVE

SUPPORTING THE **WARFIGHTER**. PROTECTING THE **TAXPAYER**.

What's an estimating system?

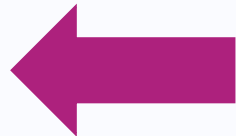


DFARS 252.215-7002(a) defines it as:

“**Estimating system**” means the Contractor's policies, procedures, and practices for budgeting and planning controls, and generating estimates of costs and other data included in proposals submitted to customers in the expectation of receiving contract awards.

Estimating system includes the Contractor's—

- (1) Organizational structure;
- (2) Established lines of authority, duties, and responsibilities;
- (3) Internal controls and managerial reviews;
- (4) Flow of work, coordination, and communication; and
- (5) **Budgeting, planning, estimating methods, techniques, accumulation of historical costs, and other analyses used to generate cost estimates. [*Basis of Estimates*]**



FAR 15.407-5(a) provides that using an acceptable estimating system for proposal preparation ***benefits both the Government and the contractor.***

Bottom line: Your system will likely be audited if DCAA audits your proposals requiring certified cost or pricing data (defined in FAR 2.101 – generally these are verifiable facts such as purchase orders, vendor quotes, not judgements).

DFARS Requirement for Estimating System Surveillance



DFARS 252.215-7002(c) *Applicability* - the Contractor is a large business and either—

- (1) In its fiscal year preceding award of this contract, received Department of Defense (DoD) prime contracts or subcontracts, totaling **\$50 million or more** for which **certified cost or pricing data** were required; or
- (2) In its fiscal year preceding award of this contract—
 - (i) Received DoD prime contracts or subcontracts **totaling \$10 million or more** (but less than \$50 million) for which **certified cost or pricing data** for which certified cost or pricing data were required; and
 - (ii) Was notified, in writing, by the Contracting Officer that paragraphs (d) and (e) of this clause apply.

Note: Certification of Cost or Pricing data is in accordance with FAR 15.406-2(a) and is shown on the next slide.

Certification for Cost or Pricing Data



Certificate of Current Cost or Pricing Data

This is to certify that, to the best of my knowledge and belief, the cost or pricing data (as defined in section 2.101 of the Federal Acquisition Regulation (FAR) and required under FAR subsection 15.403-4) submitted, either actually or by specific identification in writing, to the Contracting Officer or to the Contracting Officer's representative in support of _____* are accurate, complete, and current as of _____**. This certification includes the cost or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

Firm _____

Signature _____

Name _____

Title _____

Date of execution*** _____

* Identify the proposal, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g., RFP No.).

** Insert the day, month, and year when price negotiations were concluded and price agreement was reached or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.

***Insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.

(End of certificate)

How to develop a basis of estimate



First off, what is a basis of estimate and why is it important?

If you ask Wikipedia –

- *Basis of estimate (BOE) is a tool used in the field of project management by which members of the project team, usually estimators, project managers, or cost analysts, calculate the total cost of the project. Through carefully planned equations, hierarchical listing of elements, standard calculations, checklists of project elements and other methods, the project team adds in all expenses of a project, from labor to materials to administrative costs. These calculations formulate a BOE which is, when completed, a number that can be used to determine the ability of the firm or company to carry out the project or used as a tool in competing for a contract bid or otherwise proposing the project to another.*

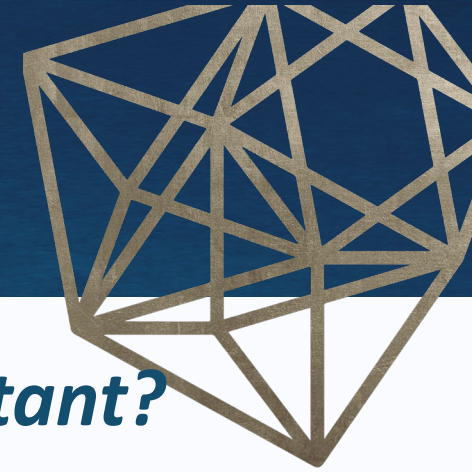
How to develop a basis of estimate



First off, what is a basis of estimate and why is it important?

- ✓ *If you ask the Federal Acquisition Regulation –*
 - FAR 15.408, Table 15-2
 - *There is **not a single basis of estimate** within a proposal*
 - ***Each significant cost element** (e.g., direct labor, direct material, indirect cost, etc.) will have a basis of estimate*
 - ***Within each cost element** select items of cost (e.g., subcontracts) may need its own basis of estimate*

How to develop a basis of estimate



First off, what is a basis of estimate and why is it important?

- ✓ *If you ask the **Defense Federal Acquisition Regulation Supplement (DFARS)** –*
 - (4) The Contractor's estimating system shall 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. An acceptable estimating system shall accomplish the following functions:
 - (i) Establish clear responsibility for preparation, review, and approval of cost estimates and budgets.
 - (ii) Provide a written description of the organization and duties of the personnel responsible for preparing, reviewing, and approving cost estimates and budgets.
 - (iii) Ensure that relevant personnel have sufficient training, experience, and guidance to perform estimating and budgeting tasks in accordance with the Contractor's established procedures.
 - *(iv) Identify and document the sources of data and the estimating methods and rationale used in developing cost estimates and budgets.*

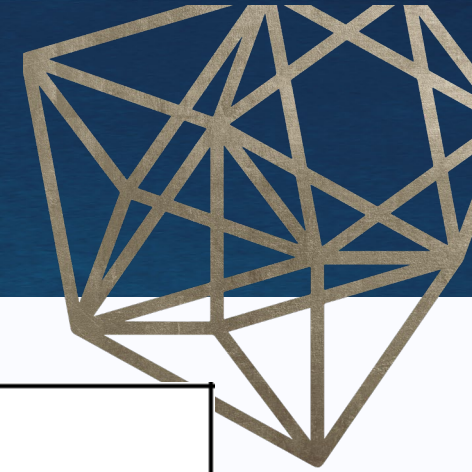
What Does DCAA Expect?



From the DCAA Estimating System Audit Program – May 2024

2. Review the **basis of estimate**. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed direct material prices, kinds and quantities, as well as any significant additive factors (e.g., scrap, rework, spoilage).
(DFARS 252.215-7002(d)(4)(iv))

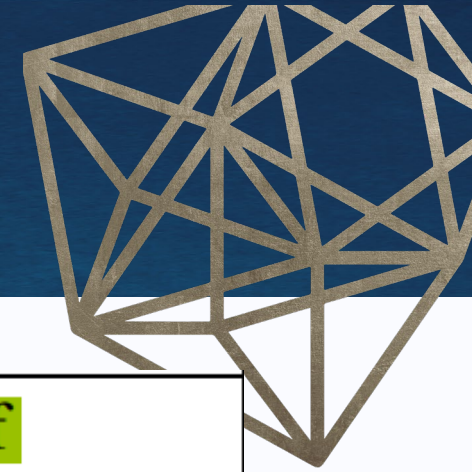
What Does DCAA Expect? (Cont.)



2. Review the **basis of estimate**. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the base direct labor rate estimates and escalation.
(DFARS 252.215-7002(d)(4)(iv))

2. Review the **basis of estimate**. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed direct labor hours and skill mix.
(DFARS 252.215-7002(d)(4)(iv))

What Does DCAA Expect? (Cont.)



2. Review the description of the budget process and the **basis of estimate** in the selected price proposals. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed indirect expenses.
(DFARS 252.215-7002(d)(4)(iv))

2. Review the **basis of estimate**. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the ODC.
(DFARS 252.215-7002(d)(4)(iv))

Basis of Estimate



- **The result of all the estimates (BOEs) and their basis helps get the Government contracting officer to a “fair and reasonable price”**
- **And that is the job of the estimator**

Creating a Basis of Estimate



- First step in putting together the BOE, as well as the proposal, is to carefully read the Performance Work Statement (PWS) in the RFP/RFQ.
- The proposal team should include members of your company's financial, pricing, purchasing and technical personnel to provide a realistic estimate. **The team** must, collectively, determine the right approach in several areas such as:
 - Does the company have the expertise in all areas required by the PWS or is a teaming partner desirable?
 - What major tasks need to be subcontracted?
 - Does the company have experience they can leverage?
 - Does the company have adequate bandwidth to perform the PWS
 - ❑ enough people,
 - ❑ enough space to perform any manufacturing/assembly required,
 - ❑ all necessary equipment, and
 - ❑ adequate financial resources.
 - Are there known shortages of specific materials? If so, how will they be solved.
 - Is any government furnished equipment or materials required?

Creating a Basis of Estimate (Cont.)



Next, the BOE should reflect the outcome of these discussions, to include, the level of services (proposed labor hours) needed, the skill mix required, materials required, travel needed, etc., that will be responsive to the PWS. **The BOE is generally broken down by cost element such as labor, materials, travel and indirect expenses.** For each cost element, the BOE should combine detailed computations with supporting rationale. Computations, alone, are not sufficient. Specific areas to be addressed include:

- If there are **labor categories** that require a mix of skill levels, be sure these skill levels are clearly identified and justified. **Explain, for example**, why a Senior Information Analyst is needed instead of an Intermediate Information Analyst
- If the proposal is a follow-on manufacturing job and there has been major price increases in **specific materials**, explain **why alternative materials are not appropriate.**
- Explanation of the **need for travel** and determine if teleconferences could be used.
- Explain the impact of this proposal on **indirect rates**. **Explain, for example**, has an increase in business been adequately considered?
- Any **assumptions** made

How to develop a BOE (Cont.)



Some common elements should be included in the development of a BOE are:

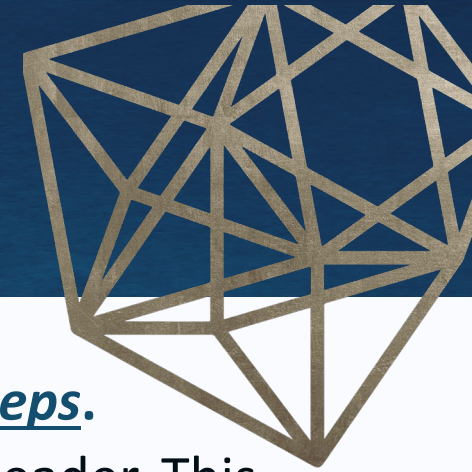
- Thought process and approach (the logic behind choices made)
- Company Experience (comparison to historical data or programs)
- Time Span/Period of Performance
- Quantity estimates
- Engineering Judgement
- Mathematical Calculations
- Complexity Factors and Basis for Factors (e.g. efficiency or scrap/rework)

BOE Presentation



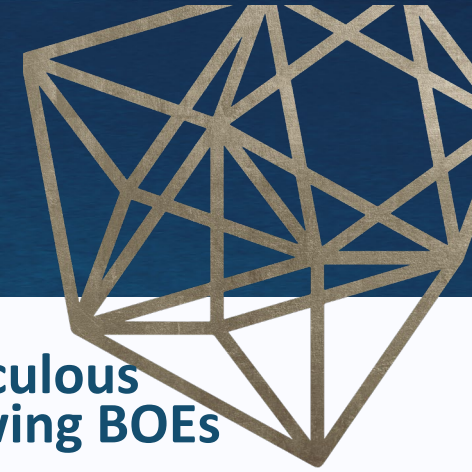
- While the development of the proper BOE estimate is vital, the *presentation* of that estimate in the BOE narrative is just as important. There is nothing worse than putting a clever plan together, only to have the reader be unable to understand it.
- You will need to check your specific solicitation requirements to *identify where the narrative needs to go*; it is possible they could be required as a part of the Cost Volume, part of the Technical Volume, or both.
- You need to *present your decisions in a way that a third-party reader could follow*.

BOE Presentation (Cont.)



- **In our opinion, we suggest that you outline the BOE in the following four steps.**
 1. Identify the **PWS element** that you are pricing in a bold and easily seen header. This will let the reader know what element you are estimating.
 2. Include a **description of the BOE**. This could describe the labor categories selected, the level of those labor categories, and what team member will be performing, among many other things.
 3. Present the BOE you formed for the specific Performance Work Statement (PWS). Consider incorporating a table into your narrative that shows the elements. For example, for your labor BOE (labor categories such as hours, labor mix, labor rates, assumptions).
 4. Tie all the information into a **concise summary** that outlines your plan.

BOE Presentation (Cont.)



The development and presentation of the BOE can be a very difficult and meticulous process. Below are *three examples of mistakes* that we encounter when reviewing BOEs for our clients:

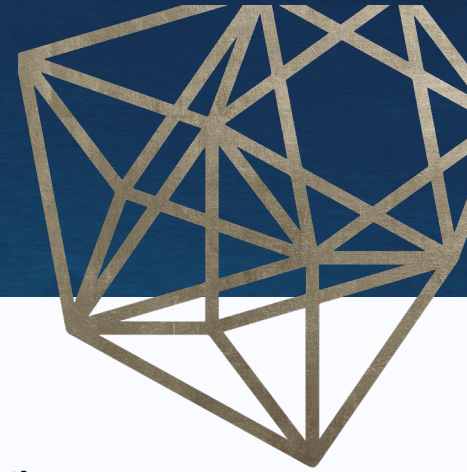
- In your presentation of the BOE, you need to be sure that the ***numbers reconcile***. The amounts represented in the BOE narrative should tie back to the pricing worksheets. Further, the math needs to be correct. Due to the fact that the BOE will be manually input into the Word version of your narrative, there is a risk for “input error.” The numbers need to be checked several times by multiple readers to ensure they are all correct.
- Because personnel with ***technical expertise*** develop BOEs, it is common for their narratives to get into the weeds, per se. You need to make sure that any third-party reader can read and comprehend the actions for completing the PWS requirements.
- Generally, a solicitation will have a ***labor category with multiple levels***. It is important to justify your selection of labor category level. Ask yourself, “Did I adequately tell the reader why we selected a Level 3 instead of a Level 4 to complete the scope of work in the PWS?” You need to be able to justify why you selected a particular level and why it was best to do so.

Is it convincing? First, it needs to be understood



- Have a ***well-organized BOE*** and to follow any presentation requirements laid out in the solicitation. The ***more difficult the BOE is to follow, the more time your staff will have to spend with the auditors***, which is a waste of your company's time and resources.
- Consider the auditors evaluating your proposal and BOE probably have a budget and immense pressure to meet that budget. If the ***BOE is too difficult for the auditor to understand***, they may question anything that is difficult to interpret and confusing, and delay contract award.
- Incorporate a ***reference table*** into your narrative that shows all elements required in the development of your BOE (labor categories, hours, etc.). This table should be referenced to the supporting details for each cost element of your BOE. If you are referencing Excel spreadsheets, ensure you have identified and referenced the tab and possibly even the specific cell of the applicable spreadsheet.

Basis of Estimate



- **A good Basis of Estimate documents:**
 - What historical data is available (*and why or why not used*)
 - The logic applied
 - What data was used
 - The methodology employed
 - The calculations made
- **The Who, What, Where, When, and How of the estimate**

Basis of Estimate Simple Format (NCMA)



- **Header Information**
- **Task Description**
- **Basis of Estimate**
- **Bid Detail**

National Contract Management Association (NCMA): “Dos, Don’ts and Whys for Basis of Estimate” by Lynne Ziter, March 13, 2013 - <https://ncmaboston.org/wp-content/uploads/2013/08/Basis-of-Estimates.pdf> - Accessed 9/2/24 - 1545 hours.

BOE Component – Header (NCMA)



Header Information:

- WBS or Task ID: Where this estimate fits/maps to the CWBS
- Period of Performance (Start / End): When this activity will happen within the program schedule – and for how long

VERY easy way for auditor to check bid validity

BOE Component – Task Description (NCMA)



Task Description

- **WHY** is this task being done?
Reference “driving” document (Spec, SOW, etc.)
- **WHAT** will be done? Provide a complete & clear explanation of the tasks included.
 - EQUALLY important to state the tasks NOT included.
 - Provide detail to fully describe the tasks to be performed.
 - Provide detail to a level that bid hours/task will be small.
- **ASSUMPTIONS** for this estimate? Identify assumptions that the estimate is based on.
 - Can lead directly to identification and mitigation of risk.
- **PLAN INTEGRATION:** Define inputs and outputs of tasks when appropriate.
 - Key tasks & deliverables should align with schedule.

Do not do work that is not required, unless authorized by stakeholders with the authority to do so.

Avoids requirement misinterpretations, and clarifies the “gray” areas.

The more detail . . . the better the plan, the estimate, and the ultimate performance.

Defines boundary conditions that can impact the estimate (GFE receipt, IRAD product arrival, number of re-tests, etc.)

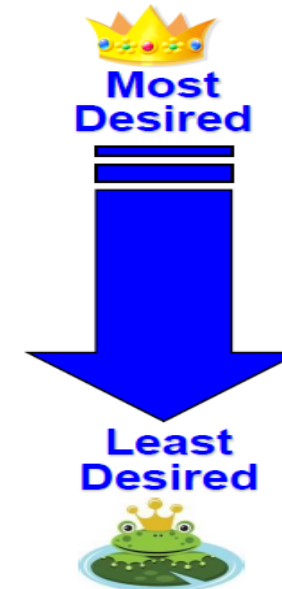
Assists in plan and IMS integration.

This information defines the work (tasks) you are committing to do

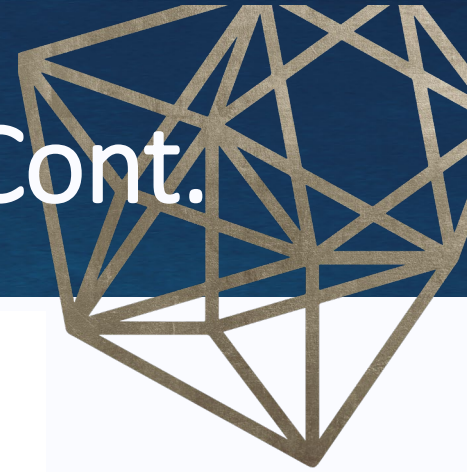
BOE Component – BOE (NCMA)

Basis Of Estimate

- **RATIONALE:** HOW you derived the estimate to execute the effort described in the Task Description section.
- **TYPICAL RATIONALE TYPES:**
 - Historical Program(s) task and cost data.
 - Historical Program or Organizational Productivity parametric data
 - Firm Quotation (from a subcontractor or supplier)
 - Level of Effort
 - Engineering Estimate



BOE Component – Bid Details (NCMA) – Cont.



Bid Detail

- Show ALL calculations for how you arrive at your final hour total
- Provide summary tables of ALL tasks, hours by labor group, and totals
- Show totals for ALL areas of estimate (for WBS elements)

This information defines the cost (budget) you are committing to!

How BOEs Are Evaluated - FAR Part 15



- **Without competition, the Government analyzes the vendor's proposal for cost and price**
 - **Price analysis** is examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit
 - **Cost analysis** is the review and evaluation of the separate cost elements and profit or fee in the vendor's proposal, which may include a technical analysis (i.e., your engineers performing a review)

“Fair and Reasonable Price” – Price Analysis



FAR 15.404-1(b)(1) - **Price analysis** is the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit. ... Price analysis may include evaluating data other than certified cost or pricing data obtained from the offeror or contractor when there is no other means for determining a fair and reasonable price.

FAR 15.404-1(b)(2) - Provides 7 price techniques to determine a fair & reasonable price:

1. **Comparison of proposed prices received in response to the solicitation (Normally, adequate price competition).**
2. **Comparison of the proposed prices to historical prices paid, whether by the Government or other than the Government, for the same or similar items. This method may be used for commercial items including those “of a type” or requiring minor modifications.**
3. Use of parametric estimating methods....
4. Comparison with competitive published price lists....
5. Comparison of proposed prices with independent Government cost estimates.
6. Comparison of proposed prices with prices obtained through market research for the same or similar items.
7. Analysis of data other than certified cost or pricing data (as defined at 2.101) provided by the offeror.

Preferred techniques in the color, berry, above.

“Fair and Reasonable Price” – Cost Analysis



FAR 15.404-1(c)(1) - **Cost analysis** is the **review and evaluation of any separate cost elements and profit or fee** in an offeror’s or contractor’s proposal, as needed to determine a fair and reasonable price or to determine cost realism, and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency.

FAR 15.404-1(c)(2) - **Cost analysis techniques** and procedures to ensure a fair and reasonable price, such as:

- (i) Verification of cost data or pricing data and evaluation of cost elements,**
- (ii) Evaluating the effect of the offeror’s current practices on future costs,**
- (iii) Comparison of costs proposed by the offeror for individual cost elements,**
- (iv) Verification that the offeror's cost submissions are in accordance with the contract cost principles and procedures in FAR Part 31 and, when applicable, Cost Accounting Standards,**
- (v) Review to determine whether any applicable cost data or pricing data for negotiations, and**
- (vi) Analysis of the results of any make-or-buy program reviews, in evaluating subcontract costs.**

How's this? [NCMA Presentation]

BASIS OF ESTIMATE			
Prime ID #:	Date: 8/7/06 2:40	Assist ID #:	
Program Name: XYZ			WBS: 1.2.2.3.4.5
Task Title: Test Readiness Review		Option:	CLIN/SLIN:
Location: Timbuktu	Prepared By: Bob Boe		SOW Ref: 1.1.1.3
Perf Org: 30034			Approved by:
Period of Performance:	Start: 5/2007	End: 5/2008	Other: F009

Summary:

Material \$ 0

Labor (by skill mix):

SE									Total Hrs
244									244

ODC \$



PoP and SOW Reference Very Important

How's this? [NCMA Presentation]

BASIS OF ESTIMATE(SPECIFY) : 5

- | | |
|---|------------------------------------|
| (1) COMPARISON METHOD (SIMILAR TO SPECIFIC TASK) | (6) ENGINEERING ESTIMATE |
| (2) UNIT METHOD (ESTIMATED HOURS PER DRAWING) | (7) PARAMETRIC |
| (3) FACTOR METHOD (SPECIFY HOW FACTORS WERE DERIVED) | (8) LEVEL OF EFFORT (LOE) |
| (4) TIME & COST EST APPROACH (TIME STUDY, REGRESSION ANAL.) | (9) SUPPLIER QUOTATION TO BOE CODE |
| (5) HISTORY (BE SPECIFIC, IDENTIFY PROGRAM, DSO, ETC.) | |

BID METRIC CODE : GGAA

Task Description (include list of subtasks if appropriate):

Prior to formal testing a Test Readiness Review (TRR) is held. This review is to ensure that the hardware, software, and test procedures are ready for formal testing.

Subtasks

ID	Title	Description	Hours

Scope

Since much of the testing is time phased there will be multiple TRR's. This BOE covers TRR's for Performance DVT, Environmental DVT, EMI/EMI, and RGT.

Basis of Estimate / Supporting Data

Hours 340 hours
Total

Task Comparison

These TRR's are similar to the TRR held under Bob the Builder program, (reference charge number ABC 61 hours).

Rationale

Four TRR's will be held due to the time phasing of the testing using different terminal configurations/baselines.

Task Calculation

4 TRRs x 85 hours = 340 hours

Note method (5) – No WAGs (6)

How's this? [NCMA Presentation]

EE											Total Hrs
156											156

ODC:
Basis of Estimate (Specify): 6
Bid Metric Code: ADA

Task Description:
Update CCA design to replace V2 FPGA (MAF) with V5 device. Update requirements, rebuild application using updated tool suite, update test bench, and update final documentation package

Scope:
Assumes no change to ethernet implementation and no substantial impact as a result of component internal architecture differences and tool suite capabilities.

Basis of Estimate/Supporting Data:

Total Hours
180 hours


Rationale
Hours based on very minor update to FPGA.
Requirements update = 40 hours
Develop new pinout = 24 hours
Re-run VHDL = 60 hours
Update and complete test bench = 40 hours
Update final documentation set = 16 hours

~~Summary Task Calculation~~
Total = 40 + 24 + 60 + 40 + 16 = 180 hours

Handwritten notes:
spelling
??
Comparison?
All WAGs

Handwritten circled notes:
Total Hrs 156 (circled)
180 hours (circled)

Hour mismatch, spelling, WAGs



How's this? [NCMA Presentation]

Basis of Estimate (Specify): 61

Bid Metric Code: AE

Task Description:

Electrical design of all new and modified module

* Generation of CCA layout.

* Generation of CCA Gerber's

Scope:

Layout of Gerber's and material for prototypes

Basis of Estimate/Supporting Data:

Based on C bids for RF coupon PWBs and component kits:

PWB: 1 week turn @ 1.5K per prototype run for proto Gerber's $3 \times 1.5k = 4.5k$. Material for 3 prototype based on which had the same number of prototypes, Component Kits: \$3.5k (XLC Actual)
 $4.5k + 3.5k = 8.0k$

Hours Summary
Labor Total 0MH
Material Total \$8,000

Task Comparison

Rationale

Task Calculation
0 hours

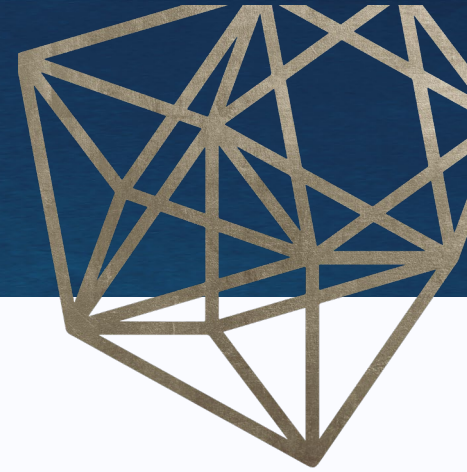
Format, NWA, material quote used?



Best Practices

- Consider using a standard template or is one even stated to use in the RFP/RFQ
- Document through written policies and procedures that delineate having a team and who does what when performing reviews and approvals.
- Perform a continuous review and update process – feedback loop – how well did our estimates do? Refine further.
- Conduct an annual training of estimators
- Well documented purchasing files
- Document management reviews
- Consider a buyer's annual briefing to management on market trends

How Redstone Can Help



Redstone can assist with:

- **Preparing and reviewing individual proposals**
- **Reviewing your estimating system and determining compliance gaps**
- **Drafting written estimating system policies and procedures**
- **Assisting with responses to DCAA audit findings**
- **Training on proposal preparation and estimating system processes**

Questions and Discussion





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