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COST ANALYSIS GUIDE

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OFFICE OF ACQUISITION MANAGEMENT
COST ADVISORY AND FINANCIAL ANALYSIS DIVISION
WASHINGTON COST ADVISORY BRANCH
U.S. ENVIRONMENTAL PROTECTION AGENCY
401 M. STREET, S.W.
WASHINGTON, D.C. 20460

MARCH 1993

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FOREWORD

The Cost Analysis Guide is prepared by the Washington Cost Advisory Branch of the Office of Acquisition Management, U.S. Environmental Protection Agency.

The manual is published to provide guidance to Office of Acquisition Management personnel engaged in the analysis and negotiation of contract prices.

This edition supersedes the previous manual dated August 1990. The guide has been redesigned to increase its utility. The changes have been so extensive that the guide should be treated as a new publication and be reread accordingly.

As additional revisions to this guide are issued, copies will be provided to the reader along with appropriate filing instructions.

Additional copies of this guide may be obtained from the Chief of the Washington Cost Advisory Branch.

Cost Advisory Branch

Types of Assistance Provided by the Cost Advisory Branch

The Cost Advisory Branch provides the following assistance to the contracting officers and/or contract specialists:

1. cost analysis reports;
2. price analysis reports;
3. preliminary analytical cost evaluation reports (PACER);
4. RFP reviews;
5. participation at negotiations/discussions;
6. reviews of SF 1412 exemptions from submission of certified cost or pricing data; and
7. any special requests for assistance from the contracting officer and/or contract specialist such as financial capability reviews, accounting system reviews, etc.

How to Request Assistance from the Cost Advisory Branch

To request cost advisory assistance, the contracting officer/contract specialist must complete a "Request for Cost Analysis" form and forward it to the appropriate Cost Advisory Branch. The contracting officer/contract specialist should also submit the following information with the request:

- a copy of the cost proposal (including subcontractor's information submitted directly to EPA under separate cover);
- a copy of the Request for Proposal (RFP) (including all amendments);
- technical evaluation, if available;
- representations and certifications (prime contractor and subcontractor(s)); and
- general financial and organizational information (prime contractor and subcontractor(s)).

It is also important that the requestor identify the type of report desired (i.e. cost analysis, price analysis, PACER, financial capability review, etc.). If the requestor has any

specific area of concern or any special analysis is desired, he or she should indicate this clearly on the request. A separate request for analysis form should be filled out for each offeror under an RFP unless a PACER is requested. If a PACER is requested, only one request for analysis form should be completed.

An example of the Washington Cost Advisory Branch's request for analysis form is on Appendix A page 1. The Cost Advisory Branches in Cincinnati, Ohio and Research Triangle Park, North Carolina use similar forms.

Cost Analysis/Price Analysis

FAR 15.805-1(b) states:

When cost or pricing data are required, the contracting officer should make a cost analysis to evaluate the reasonableness of individual cost elements. In addition, the contracting officer should make a price analysis to ensure that the overall price offered is fair and reasonable. When cost or pricing data are not required, the contracting officer shall make a price analysis to ensure that the overall price offered is fair and reasonable.

FAR generally requires cost or pricing data on negotiated contracts or modifications estimated to exceed \$100,000 (FAR 15.804-2).

FAR 15.801 defines cost or pricing data as all facts existing up to the time of price agreement that prudent buyers and sellers would reasonably expect to affect price negotiations significantly. Cost or pricing data are factual, not judgmental, and therefore are verifiable. Cost or pricing data includes such items as vendor quotations, management decisions that could have a significant bearing on costs, etc.

FAR 15.804-6 requires that cost or pricing data be submitted on a SF 1411. FAR 15.804-6 Table 15-2 gives instructions for the submittal of a contract pricing proposal on a SF 1411.

Cost Analysis

Cost analysis requires that each specific cost element of the proposal be evaluated in order to form an opinion on whether the proposed costs represent what the cost of the contract should be assuming reasonable economy and efficiency. FAR 15.805-3 outlines the following techniques and procedures to perform cost analysis:

- a. Verification of cost or pricing data and evaluation of cost elements, including-

1. The necessity for and reasonableness of proposed costs, including allowances for contingencies;
 2. Projection of the offeror's cost trends, on the basis of current and historical cost or pricing data;
 3. A technical appraisal of the estimated labor, material, tooling, and facilities requirements and of the reasonableness of scrap and spoilage factors; and
 4. The application of audited or negotiated indirect cost rates, labor rates, and cost of money or other factors.
- b. Evaluating the effect of the offeror's current practices on future costs. In conducting this evaluation, the contracting officer shall ensure that the effects of inefficient or uneconomical past practices are not projected into the future.
- c. Comparison of costs proposed by the offeror for individual cost elements with-
1. Actual costs previously incurred by the same offeror;
 2. Previous cost estimates from the offeror or from other offerors for the same or similar items;
 3. Other cost estimates received in response to the Government's request;
 4. Independent Government cost estimates by technical personnel; and
 5. Forecasts and planned expenditures.
- d. Verification that the offeror's cost submissions are in accordance with the contract cost principles and procedures in FAR Part 31 and, when applicable, the requirements and procedures in 48 CFR Chapter 99 (Appendix B, FAR loose-leaf edition), Cost Accounting Standards.
- e. Review to determine whether any costs or pricing data necessary to make the contractor's proposal accurate, complete, and current have not been either submitted or identified in writing by the

contractor. If there are such data, the contracting officer shall attempt to obtain them and negotiate, using them or making satisfactory allowance for the incomplete data.

- f. Analysis of the results of any make-or-buy program reviews, in evaluating subcontract costs.

The factors to be considered in determining whether a cost is allowable include the following:

1. reasonableness;
2. allocability;
3. standards promulgated by the CAS Board, if applicable; otherwise generally accepted accounting principles and practices appropriate to the particular circumstances;
4. terms of the contract; and
5. any limitations of FAR Part 31.

A cost is considered reasonable if, in its nature and amount, it does not exceed that what one would expect a prudent person to incur in a competitive business. Reasonableness of costs must be determined with particular care when dealing with organizations which may not be subject to competitive restraints. What is reasonable depends upon a variety of consideration and circumstances. In determining the reasonableness of specific proposal costs, the following questions are important:

1. Is the type of a cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contractor's performance?
2. Have the restraints or requirements of generally accepted business practices, arm's length bargaining, and Federal and state laws and regulations been considered?
3. Would a prudent business person incur the cost under the circumstances, considering his or her responsibilities to the Government, other customers, the owners of the business, employees, and the general public?
4. Does the charge constitute a significant deviation from the contractor's established practices?

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or some other equitable relationship. A cost is allocable to a Government contract if it:

1. is incurred specifically for the contract;
2. benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
3. is necessary to the overall operation of the business, although a direct relationship to any particular cost objective can not be shown.

FAR Part 31 contains a list of specific costs which are identified as unallowable on Government contracts or which require special attention. Examples of such costs mentioned in FAR 31.205 include interest, entertainment, fines and penalties, bad debt, and bid and proposal costs. All contracting personnel should thoroughly familiarize themselves with the contents of FAR 31.

Appendix B contains the review program for performing a cost analysis. The review program is a guide used to assure that at a minimum certain techniques are applied to each proposal reviewed. Since the program is a guide, it can be modified for each specific situation encountered.

Appendix B also contains an example of a cost analysis report.

Price Analysis

FAR 15.801 defines price analysis as the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit. One or more of the following techniques may be used to perform price analysis:

1. Comparison of proposed prices received in response to the solicitation;
2. Comparison of prior quotations and contract prices with current proposed prices for the same or similar items;
3. Use of rough yardsticks (such as dollars per pound or other units) to highlight significant differences;

4. Comparison with competitive published price lists, published market prices, including discount and rebate schedules; and
5. Comparison of proposed prices with independent Government cost estimates.

Appendix C contains an example of price analysis report.

PACER (Preliminary Analytical Cost Evaluation Report)

A PACER is used to help the contracting officer determine the competitive range. A PACER provides a comparison of the cost proposals submitted under a competitive RFP (Request for Proposal). The offerors's cost proposals are not subject to cost analysis during a PACER review. During the PACER review, the cost analyst determines:

1. if the offerors's proposals are mathematically correct;
2. if adequate SF 1411s are provided;
3. if current financial statements are provided;
4. if adequate representations and certifications are provided;
5. if RFP specified labor hours and categories are proposed;
6. if the other direct costs are proposed in accordance with the RFP; and
7. if adequate support is provided for the proposed labor rates and indirect rates.

Suggested interrogatories are also provided for each offeror.

Appendix D contains an example of a PACER.

RFP Review

The Cost Advisory Branch also reviews RFPs prior to their publication in the Commerce Business Daily. A cost analyst provides comments which assist in clarifying ambiguous language or correcting erroneous statements in the RFP. Normally the review concentrates on the areas of the RFP that address cost proposal instructions. The clarification or correction of the RFP prior to release helps avoid the delays in the acquisition process caused by the need for additional information, revised proposals or solicitation amendments.

Appendix E contains an example of a RFP review.

Review of SF1412 Exemptions from Submission of Certified Cost or Pricing Data

According to FAR 15.804-3, the contracting officer shall not require submission or certification of cost or pricing data when the contracting officer determines that prices are:

1. Based on adequate price competition;
2. Based on established catalog or market prices of commercial items sold in substantial quantities to the general public; or
3. Set by law or regulation.

To qualify for an exemption under 2 or 3 above, the offeror must ordinarily claim it on Standard Form 1412, Claim for Exemption from Submission of Certified Cost or Pricing Data.

Cost Advisory Branch personnel are experienced in reviewing claims for exemption from submission of certified cost or pricing data.

Assistance at Negotiations/Discussions

Cost Advisory Branch personnel are available to assist the contracting officer/contract specialist during discussions and negotiations. They can help the contracting officer communicate cost recommendations to the contractor. When requesting such assistance, please give the analyst sufficient notice so they can adjust their schedule to attend.

Special Requests from the Contracting Officer/Contract Specialist

Cost Advisory personnel can perform special reviews as requested by the contracting officer/contract specialist. Examples of such reviews are financial capability reviews, accounting system reviews etc.

Financial Analysis Branch

The Financial Analysis Branch performs the following functions:

1. Financial Monitoring Reviews;
2. Contractor Purchasing System Review Coordination;
3. Final Audits;
4. Ad hoc Contract Management Assistance; and
5. Audit Resolution Coordination for OAM.

For more information on this branch, please contact Dale Roberson, Chief of the Financial Analysis Branch on (202) 260-3194.

Cost Policy and Rate Negotiation Branch

The Cost Policy and Rate Negotiation Branch:

1. negotiates indirect cost rates;
2. performs the Financial Administrative Contracting Officer (FACO) function;
3. develops cost policy;
4. reviews CAS adequacy and conducts compliance reviews; and
5. negotiates advance agreements for compensation, B&P/IR&D, and insurance costs.

For more information on this branch, please contact John Zabretsky, Chief of the Cost Policy and Rate Negotiation Branch on (202) 260-3243.

Cost Accounting Standards

A Cost Accounting Standard is a statement formally issued by the Cost Accounting Standards Board that:

1. states a principle or principles to be followed;
2. establishes practices to be applied; and
3. specifies criteria to be employed in selecting from alternative principles and practices

in estimating, accumulating and recording costs of contracts subject to the rules of the Cost Accounting Standards Board. The objective of a cost accounting standard is to provide more comparability among government contractors whose circumstances are similar by increasing the degree of uniformity in their cost accounting practices. The Cost Accounting Standard Board has issued nineteen standards:

CAS 401-Estimating, Accumulating, Reporting Costs. The purpose of this standard is to achieve consistency in the cost accounting practices used by a contractor in estimating costs for their proposal with those the contractor uses in accumulating and reporting their costs during contract performance.

CAS 402-Allocating Costs Incurred for Same Purpose. The purpose of this standard is to insure that each type of cost will be allocated to a contract or final cost objective only once and on only one basis. The criteria for allocation should be the same for similar cost objectives.

CAS 403-Allocation of Home Office Expenses to Segments. This standard establishes criteria for the allocation of the expenses of a home office to the segments of the organization such as plants or other subdivisions reporting directly to the home office.

CAS 404-Capitalization of Tangible Assets. This standard requires contractors to establish and adhere to policies of tangible asset capitalization that satisfy various criteria set forth in the standard.

CAS 405-Accounting for Unallowable Costs. This standard establishes guidelines for the identification of unallowable costs and the treatment accorded such costs.

CAS 406-Cost Accounting Period. This standard provides criteria for the selection of the time periods to be used as cost accounting periods for contract cost estimating, accumulating and reporting.

CAS 407-Standard Costs. This standard provides for the use of standard costs for estimating, accumulating and reporting direct labor and material costs. It also provides criteria for the establishment of standards, accumulation of standard costs, and accumulation and disposition of variances from standard costs.

CAS 408-Compensated Personal Absence. This standard is designed to insure that the costs of the compensated personal absences are assigned to the cost accounting period in which the related labor is performed and which the related wage or salary costs are recognized.

CAS 409-Depreciation of Tangible Capital Assets. This standard provides criteria for assigning depreciation costs of tangible capital assets to the proper cost accounting period. The standard is based on the concept that depreciation costs should be a reasonable measure of the service life of a particular asset.

CAS 410-Allocation of G&A Expenses. This standard provides criteria for the allocation of the cost of management and administration of a business unit based on a beneficial and causal relationship to final cost objectives.

CAS 411-Acquisition Costs of Material. This standard establishes criteria for the accounting for acquisition costs of material. The standard includes provisions on the use of material inventory records to determine acquisition costs. It does not cover accounting for the acquisition costs of tangible capital assets or accountability for Government-furnished materials.

CAS 412-Pension Cost. This standard establishes the components of pension costs, the basis for measuring the amounts of such costs and the criteria for assigning the costs to cost accounting periods.

CAS 413-Adjustment and Allocation of Pension Cost. This standard provides guidance for adjusting pension cost by measuring actuarial gains and losses and assigning such gains and losses to cost accounting periods. The standard also provides the bases for allocating pension costs to segments of an organization.

CAS 414-Cost of Money as an Element of the Cost of Facilities Capital. This standard provides for the explicit recognition of the cost of money for facilities capital as an element of contract cost.

CAS 415-Accounting for the Cost of Deferred Compensation. This standard is applicable to the cost of all deferred compensation except for compensated personal absences and pension plan costs

covered in CAS 408 and 412 respectively.

CAS 416-Accounting for Insurance Costs. This standard provides the criteria for the measurement of insurance costs, assignment to cost accounting periods and allocation to cost objectives.

CAS 417-Cost of Money as an Element of the Cost of Capital Assets under Construction. This standard provides guidance for the measurement of the cost of money as an element of the cost of capital assets under construction.

CAS 418-Allocation of Direct and Indirect Costs. This standard governs the classification of direct and indirect costs, accumulation of indirect costs, and selection of bases for allocating indirect costs.

CAS 420-Accounting for Independent Research and Development (IR&D) Costs and Bid and Proposal (B&P) Costs. This standard requires that IR&D and B&P costs be accumulated by individual projects and allocated according to the same base used to allocate general and administrative expenses under CAS 410.

The following categories of contracts and subcontracts are exempt from all CAS requirements:

1. Sealed bid contracts;
2. Negotiated contracts and subcontracts not in excess of \$500,000;
3. Contracts and subcontracts with small businesses;
4. Contracts and subcontracts with foreign governments;
5. Contracts and subcontracts in which the price is set by law or regulation;
6. Contracts and subcontracts when the price is based on established catalog or market prices of commercial items sold in substantial quantities to the general public;
7. Contracts and subcontracts with educational institutions other than those to be performed by Federally Funded Research and Development Centers;
8. Contracts awarded to labor surplus area concerns pursuant to a labor surplus area set-aside;
9. Contracts and subcontracts awarded to the United Kingdom contractor for performance substantially in the

United Kingdom;

10. Contracts and subcontracts to be executed and performed entirely outside the United States, its territories, and possessions; and
11. Firm-fixed price contracts and subcontracts awarded without submission of any cost data; provided that the failure to submit such data is not attributable to a waiver of the requirement for certified cost or pricing data.

Negotiated contracts not exempt in accordance with the above requirements are subject to CAS. A CAS-covered contract may be subject to full or modified coverage. The rules for determining whether full or modified coverage applies are:

a. Full Coverage. Full coverage requires that the business unit comply with all of the CAS in effect on the date of the contract award and with any CAS that become applicable because of later award of a CAS-covered contract. Full coverage applies to contractor business units that:

1. Receive a single CAS-covered contract award of \$10 million or more;
2. Received \$10 million or more in CAS-covered contract awards during its preceding cost accounting period; or
3. Received less than \$10 million in CAS-covered contract awards during its preceding cost accounting period but such awards were 10 percent or more of total sales.

b. Modified Coverage. Modified CAS coverage requires only that the contractor comply with CAS 401 and 402. Modified coverage, rather than full, may be applied to:

1. A covered contract of less than \$10 million awarded to a business unit that received less than \$10 million in CAS-covered contracts in the immediately preceding cost accounting period if the sum of such awards was less than 10 percent of the business unit's total sales during that period.
2. If any one contract is awarded with modified CAS coverage, all CAS-covered contracts awarded to that business unit during that cost accounting period must have modified coverage with the following exception: if the business unit receives

a single CAS-covered contract award of \$10 million or more, that contract must be subject to full CAS coverage. Thereafter, any covered contract awarded in the same cost accounting period must also be subject to full CAS coverage.

3. A contract awarded with modified CAS coverage shall remain subject to such coverage throughout its life regardless of changes in the business unit's CAS status during subsequent cost accounting periods.

- c. Subcontracts. Subcontract awards subject to CAS require the same type of CAS coverage as would prime contracts awarded to the same business unit.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, DC 20460

REQUEST FOR COST ANALYSIS

TO:

US Environmental Protection Agency
Procurement & Contracts Management
Division (PM-214-F)
Cost Review & Policy Branch
Washington, DC 20460

Contractor/Grantee

Contract/RFP/Grant No.

Subcontractor (Fill in if appropriate)

Desired Date for Completed Report

Date of Proposal

Proposed Amount

Project Title

Information Required To Be Submitted (Fill in the appropriate blocks)

CONTRACTS/RFPs

GRANTS

Type of Contract

Project Officer's Name

Period of Performance

Phone

Check One

☐

Selected

☐

Unselected

Location

Check One

☐

Other Than Full & Open Competition

☐

Competitive

Has Funding Package Been Received? If "Yes," For How Much?

☐

Yes

☐

No

Amount: \$

The following documents are enclosed:

☐

Cost proposal Per EPAAR 1552.215-74)

☐

General financial and organizational information

☐

RFP (if L.O.E. type contract)

☐

Representations and certifications

☐

Technical evaluation

Comments (Including specific areas of interest, if any.)

Requestor

Telephone (Include extension)

Date

The Desired Date For Completed Report is Satisfactory Unless Explained Below.

Cost Analyst

Date

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

- A. PURPOSE AND SCOPE
- B. REFERENCES
- C. PRELIMINARY REVIEW STEPS
- D. DETAILED REVIEW STEPS
 - D.1 Direct Labor
 - D.2 Indirect Costs
 - D.3 Other Direct Costs
 - D.4 Facilities Capital Cost of Money
 - D.5 Subcontracts
- E. ADDITIONAL DETAILED REVIEW STEPS
 - E.1 Cost Accounting Standards
 - E.2 Accounting System
 - E.3 Financial Capability
- F. CONCLUDING STEPS

NOTE: This program is intended to provide a logical sequence to the cost analysis effort. This program does not replace individual judgement. The review steps in the program are intended as general guidance and should be expanded or eliminated as necessary to fit the current analysis. Those steps not required should be marked "not applicable" (N/A).

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

A. PURPOSE AND SCOPE

1. The purpose of cost analysis is to:

- a. Verify cost or pricing data and evaluate cost elements, including-
 - (1) The necessity for and reasonableness of proposed costs, including allowances for contingencies;
 - (2) The projection of the offeror's cost trends, on the basis of current and historical cost or pricing data;
 - (3) A technical appraisal of the estimated labor, material, tooling, and facilities requirements and of the reasonableness of scrap and spoilage factors; and
 - (4) The application of audited or negotiated indirect cost rates, labor rates, and cost of money or other factors.
- b. Evaluate the effect of the offeror's current practices on future costs. In conducting this evaluation, analyst shall ensure that the effects of inefficient or uneconomical past practices are not projected into the future.
- d. Verify that the offeror's cost submissions are in accordance with the contract cost principles and procedures in FAR Part 31 and, when applicable, the requirements and procedures in 48 CFR Chapter 99 (Appendix B, FAR loose-leaf edition), Cost Accounting Standards.
- e. Determine whether any costs or pricing data necessary to make the contractor's proposal accurate, complete, and current have not been either submitted or identified in writing by the contractor. If there are such data, the analyst shall attempt to obtain them and use them or make satisfactory allowance for the incomplete data.

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Cost Advisory Branch
Review Program for Cost Analysis**

2. The cost analyst is expected to exercise professional judgement, considering vulnerability and materiality, in determining the scope of the review.

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Cost Advisory Branch
Review Program for Cost Analysis**

B. REFERENCES

1. FAR 15.805-3 Cost Analysis
2. FAR 31 Contract Cost Principles and Procedures
3. 48 CFR Chapter 99 (Appendix B, FAR Loose-leaf edition)
Cost Accounting Standards
4. EPAAR 1515.970-2
4. DCAA Contract Audit Manual
5. Armed Services Pricing Manual
6. The Washington Cost Advisor Vol.1 Nos.1-4 (Appendix F)

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Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

C. PRELIMINARY REVIEW STEPS

1. Review request for cost analysis and determine if the requestor has provided the following information. If it has not been provided, request the information.
 - a. A copy of the cost proposal (including subcontractor's information submitted directly to EPA under separate cover).
 - b. A copy of the Request for Proposal (RFP) (including all amendments)
 - c. A technical evaluation, if available. If technical evaluation is not available, qualify the report accordingly.
 - d. Representations and certifications (prime contractor and subcontractor(s))
 - e. General financial and organizational information (prime contractor and subcontractor(s))
2. Determine if the requestor has any specific areas of concern and acknowledge the request for cost analysis. Provide an estimated completion date if possible.
3. Determine if a revised proposal is pending. If a revised proposal is pending, discuss with the requestor whether to wait and review the revised proposal.
4. For Washington staff only, determine if a PACER (Preliminary Analytical Cost Evaluation Report) review was performed.
 - a. If a PACER was prepared:
 - (1) Review the PACER to determine if there were any deficiencies and/or errors in the proposal.

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Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

b. If a PACER was not prepared:

- (1) Reconcile the proposal to determine if it has been submitted in accordance with the RFP instructions.
 - (2) Determine if any FMR reviews have been performed at the prime contractor or any of the subcontractors.
 - i. If no FMRs have been performed, state this in your report.
 - ii. If a FMR review has been performed:
 - a. Review the FMR and briefly summarize the results of the review and the resolution of any findings.
 - b. Contact the financial analyst and determine the status of the issues. If any issues are outstanding, include a copy of the FMR with your cost analysis report.
5. Determine the adequacy of the proposal in reference to FAR 15.804.6 Table 15-2 which gives instructions for the submittal of a contract pricing proposal on a SF 1411.
 6. Verify computations and footings in the proposal.

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Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

7. If reviewing a revised proposal, analyze and explain in detail significant differences between revised and original proposals. Significant changes should be noted in the report.
8. Determine if the cost analysis can be performed in-house based on available cost and pricing data.
 - a. If the review can be performed using in-house data, go to the detailed review steps in Section D.
 - b. If the data in the files is insufficient or if the analyst determines that a preaward review is necessary, request an assist audit from the cognizant audit agency.
 - (1) Specifically address any areas of special concern
 - (2) Stress the need in the request for "should cost". Request that any understated costs be reported and monetized.
 - (3) Upon receipt of the audit report, determine if the audit addressed your areas of concern adequately.
 - (4) Review all audit reports for any issues to be referred to the Cost Review and Rate Negotiation Branch as potential FACO issues. If any issues are identified, prepare a memo from the cost analyst through the cost advisory branch chief briefly describing the issue. Include a copy of the audit report. Also forward a copy of the memo to the Financial Analysis Branch.

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Cost Advisory Branch
Review Program for Cost Analysis**

Work Paper
Reference

- (5) Review all audit reports for any issues to be referred to the Financial Analysis Branch for follow up on future FMR reviews. If any issues are identified, prepare a memo from the cost analyst through the cost advisory branch chief briefly describing the issue. Include a copy of the audit report. Also forward a copy of the memo to the Cost Review and Rate Negotiation Branch.

D. DETAILED REVIEW STEPS

1. Direct Labor

- a. Determine the basis of the proposed labor rates (i.e. category average, individual, weighted average, straight average, etc.) including the effective date.
- b. Verify the proposed labor rates with the cognizant audit agency verbally or in writing, data in EPA files, or payroll information submitted by the contractor.
- c. Determine the basis (i.e. common review date, employee anniversary date, etc.) and reasonableness of the proposed labor escalation.
- d. Determine where the contractor proposes and recovers their indirect time (i.e. vacation, sick, holidays, etc.).
- e. Review the contractor's policies and procedures relative to work performed by exempt employees in excess of 8 hours per day or 40 hours per week.

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Review Program for Cost Analysis**

**Work Paper
Reference**

- (1) Determine whether the contractor is recording all hours worked by exempt employees. Acceptable accounting methods for accounting for excess hours worked by exempt employees include:
 - Computing a separate average labor rate for each labor period, based on the salary paid divided by the total hours worked during the period, and distributing the salary cost to all cost objectives worked on during the period based on this rate.
 - Determining the pro rata allocation of total hours worked during the period and distributing the salary cost using the pro rata allocation.
 - Computing an estimated hourly rate for each employee for the entire year based on the total hours the employee expected to work during the year and distributing the salary costs to all cost objectives worked at the estimated hourly rate. Any variance between the actual salary costs and the amount distributed is charged/credited to overhead.
- (2) Determine whether the contractor is allocating salary costs paid to exempt employees to all effort performed in accordance with FAR 31.201-4 and CAS 418 (if applicable).

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

- f. Compute labor costs based on the audit-determined labor rates and the RFP-specified labor hours.

2. Indirect Costs

- a. Determine the basis of the proposed indirect cost rates.
- b. Verify the proposed rates. Primary verification is a forward pricing agreement with the cognizant audit agency. If a forward pricing agreement is not available, determine the reasonableness of the proposed rates based on actual rates, budgets, input from the cognizant auditors, etc.
- c. Determine what impact the current proposal would have upon the proposed indirect rates.
- d. Determine whether it is prudent to recommend a indirect rate ceiling based on FAR 42.707.
- e. Compute the impact of the recommended indirect rates on the proposed costs.

3. Other Direct Costs

- a. Review the proposed other direct costs. If the ODCs are RFP specified, determine if any of the ODC items are normally included in the contractor's indirect expense pool. If the RFP specified ODCs are normally charged indirectly, question the corresponding RFP specified ODCs. Recommend a clause be inserted in the contract that states these OCS costs are charged indirectly. If the ODCs are not RFP specified, verify the proposed costs to vendor quotes, source documents, etc.

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

Work Paper
Reference

- b. For consultant costs, obtain the names of the individuals. Verify the proposed consultant rates to the signed agreements including the hourly rates. Determine if the proposed rate is an experienced rate or a quoted rate.
- c. Compute the impact of the recommended unit rates on the proposed other direct costs.

4. Facilities Capital Cost of Money (FCCOM)

- a. Determine if the contractor has proposed facilities capital cost of money.
 - (1) If the contractor has proposed FCCOM:
 - i. Verify the FCCOM rates.
 - ii. Verify that the FCCOM rate is applied to the appropriate base.
 - iii. Recommend a fee that:
 - a. Based on EPAAR 1515.970-2 (a)(2), does not include FCCOM as part of the cost base for the computation of profit or fee.
 - b. Based on EPAAR 1515.970-2 (a)(3), is reduced by an amount equal to the amount of FCCOM allowed.
 - (2) If the contractor has not proposed FCCOM:
 - i. Recommend FAR clause 52.215-31 which waives the right to claim FCCOM be inserted in the resulting contract/subcontract.

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

5. Subcontracts

- a. Review the proposed subcontract costs in the same manner as the prime contractor.
- b. Review the subcontractor's proposed fee. Provide a copy of the weighted guidelines form with your cost analysis report.
- c. Review the proposed subcontractor's accounting system, financial capability, and CAS coverage.
- d. Determine if the subcontractor will allow the release of its confidential business information to the prime contractor. If the subcontractor objects to the release of its confidential business information to the prime, state this in your report.

E. ADDITIONAL DETAILED REVIEW STEPS

1. Cost Accounting Standards

- a. Determine if the contract is subject to

Cost Accounting Standards under
48 CFR Chapter 99 (Appendix B,
FAR loose-leaf edition) Subpart
9903.201-1 and FAR 52.230-1.
- b. If the contract is subject to
CAS, determine whether the contract
is subject to full or modified
coverage under 48 CFR Chapter 99
(Appendix B, FAR loose-leaf edition)
Subpart 9903.201-2.

(1) If the contract is subject to
full coverage, recommend that
the FAR clauses 52.230-2 "Cost
Accounting Standards" and

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

52.230-5 "Administration of
Cost Accounting Standards"
be inserted in the resulting
contract/subcontract.

- (2) If the contract is subject to modified coverage, recommend that the FAR clauses at 52.230-3 "Disclosure and Consistency of Cost Accounting Practices" and 52.230-5 "Administration of Cost Accounting Standards" be inserted in the resulting contract/subcontract.
 - (3) Contact the cognizant audit agency regarding the contractor's compliance.
 - (4) Notify the requestor of any noncompliance issues and their impact on this procurement.
- c. If the contract is not subject to CAS, notify the requestor of this fact.

2. Accounting System

- a. Determine if the contractor has an acceptable accounting system for government contracts using SF 1408 as a guideline.
- b. If a determination of the adequacy of the accounting system can not be made, recommend an accounting system review be performed.

3. Financial Capability

- a. Determine if the offeror is financially capable to perform the contract.

**Environmental Protection Agency
Cost Advisory Branch
Review Program for Cost Analysis**

**Work Paper
Reference**

F. CONCLUDING STEPS

1. Index and cross reference work papers.
2. Draft report and cross reference the file copy of the report to the work papers.
3. Include a Contracting Officer Response Sheet with the report.
4. Include a copy of assist audit report(s) with the report.
5. Include the instructions and form for reporting the resolution of preaward audits to the IG and EPA management with DCAA assist audit reports.
6. For Washington staff only, complete the Assignment Control Sheet and give it to the secretary for input into the subcontractor database.
7. Prepare file and submit both the file and report to the supervisor.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

DATE: February 11, 1993

SUBJECT: Cost Advisory Report on RFP xxxxxxxx-xx Submitted by Contractor A

FROM: John Doe, Auditor
Washington Cost Advisory Branch (PM-214-F)

THRU: John Smith, Chief
Washington Cost Advisory Branch (PM-214-F)

TO: Richard Jones, Contract Specialist
Administrative Contracts Procurement Section (PM-214-F)

The results of our review of the subject contractor's proposal dated December 20, 1992 are summarized below. (See Exhibits A through C.)

Contractor A
xxxxxxx-xx
Summary of Cost Analysis

	Contractor's Proposal	WCAO Recommendations* For Acceptance	For Non- Acceptance
BASE PERIOD			
Total Estimated Cost	\$1,577,554	\$1,571,986	\$ 5,568
Fixed Fee	126,200	=====	=====

Total Cost Plus Fee	\$1,703,754		
	=====		
OPTION PERIOD I			
Total Estimated Cost	\$1,606,659	\$1,600,820	\$ 5,839
Fixed Fee	128,529	=====	=====

Total Cost Plus Fee	\$1,735,188		
	=====		
OPTION PERIOD II			
Total Estimated Cost	\$1,636,701	\$1,630,545	\$ 6,156
Fixed Fee	130,928	=====	=====

Total Cost Plus Fee	\$1,767,629		
	=====		

	Contractor's Proposal	WCAO Recommendations*	
		For Acceptance	For Non- Acceptance
SUMMARY			
Total Estimated Cost	\$4,820,914	\$4,803,351	\$ 17,563
Fixed Fee	385,657	=====	=====

Total Cost Plus Fee	\$5,206,571		
	=====		

* We were not provided a copy of the technical evaluation report. Therefore, our recommendations are qualified to the extent that additional costs may be questioned as a result of the quality and quantity of proposed costs.

We have used LOTUS 123 software for our exhibits. Although, amounts are shown without decimals, LOTUS does remember amounts up to several decimals and rounds accordingly. For this reason amounts may be off by a few dollars due to rounding.

Direct Costs

The direct labor hours proposed by the prime contractor and subcontractors were in accordance with the instructions provided by the RFP.

The other direct costs proposed by the prime contractor and subcontractors were in accordance with the instructions provided by the RFP.

Other Comments

Subcontractor A objects to the release of their labor and indirect rate information to the prime contractor.

Neither Contractor A nor Subcontractor A have proposed facilities capital cost of money as an allowable element of cost. We recommend a waiver of facilities capital cost of money as presented in FAR 52.215-31 be inserted in the resulting contract and subcontract.

We could not determine if Subcontractor B proposed facilities capital cost of money as an allowable element of cost. We recommend that the contracting officer determine whether Subcontractor B has proposed facilities capital cost of money. If Subcontractor B has not proposed facilities capital cost of money, we recommend that a waiver of facilities capital cost of money be inserted in the resulting subcontract. If Subcontractor B has proposed facilities capital cost of money, we recommend that the contracting officer obtain supporting documentation for the proposed rate.

Both Contractor A and Subcontractor A maintain an accounting system which is considered adequate for government cost-type contracts.

We could not determine if Subcontractor B has an acceptable accounting system. However, since this is a fixed rate subcontract, we feel an accounting system review is unnecessary.

Both Contractor A and Subcontractor A have the necessary financial capability to perform this contract.

Subcontractor B did not provide financial statements. Therefore, we could not determine Subcontractor B's financial capability to perform this subcontract. We recommend that the contracting officer ask Subcontractor B to submit financial statements.

Contractor A is subject to full CAS coverage. We recommend FAR clause 52.230-2 "Cost Accounting Standards" and FAR clause 52.230-5 "Administration of Cost Accounting Standards" be inserted in the resulting contract.

DCAA states that Subcontractor A is not subject to CAS coverage. However, the subcontractor's SF1411 and representations and certifications state the resulting subcontract will be subject to CAS coverage. Therefore, we recommend that the contracting officer discuss during negotiations whether Subcontractor A is subject to CAS coverage.

Subcontractor B is not subject to CAS coverage. They certify as a small business.

The results of our review of the subject proposal are based upon rate requests provided by the cognizant DCAA offices for Contractor A and Subcontractor A and a desk review of Subcontractor B's information.

The amounts above reflect our best estimate of what contract performance should cost assuming reasonable economy and efficiency. This contract has a potential for a three year period of performance. All of our recommendations are qualified to the extent that we are unable to predict what impact the changing economy will have on the estimated costs over the next three years.

If you have any questions regarding this report or if we can be of further assistance, please contact John Doe on FTS (202) 260-xxxx.

As required by FAR Part 15.808(b), P&CMD Acquisition Handbook Units 3 (PAR.6) and 4 (PAR.4), please furnish us a copy of the Summary of Negotiations after contract award. Please advise us if no contract award is made. If this offeror is not awarded this contract, please advise the section head of Washington Cost Advisory Operations via the telephone that this offeror will not be awarded this contract. Also, we have enclosed a contracting officer's response sheet. Part of our performance evaluation depends on the responses we receive from the contracting officers/specialists we service. Please fill out this form and return it to Don Hambric (PM-214-F).

Enclosures: Contracting Officer's Response Sheet

Contractor A

RFP #xxxxxxx-xx

Summary

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV	13,680	13,680	--	--	\$346,260	\$346,260
Level III	16,515	16,515	--	--	\$278,735	\$278,735
Level II	4,440	4,440	--	--	\$58,120	\$58,120
Level I	5,223	5,223	--	--	\$50,749	\$50,749
Total Direct Labor	39,858	39,858			\$733,864	\$733,864
Fringe Benefits					\$260,522	\$260,522
Engineering Overhead					\$639,196	\$639,196
Consultant Level IV Statistician					\$68,094	\$68,094
Temporary Level I Secretary Clerical					\$30,804	\$30,804
Subcontracts						
Subcontractor A					\$1,958,134	\$1,958,127
Subcontractor B					\$79,444	\$62,267
Total Subcontracts					\$2,037,578	\$2,020,394
Other Direct Costs					\$750,192	\$750,192
G&A					\$259,913	\$259,877
Subcontract Overhead					\$40,752	\$40,408
Total Estimated Cost					\$4,820,914	\$4,803,351
Fixed Fee					\$385,657	
Total Estimated Cost Plus Fixed Fee					\$5,206,571	

Contractor A

RFP #xxxxxxx-xx

Base Period

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV	4,560	4,560	\$25.06	\$25.06	\$114,274	\$114,274
Level III	5,505	5,505	\$16.71	\$16.71	\$91,989	\$91,989
Level II	1,480	1,480	\$12.96	\$12.96	\$19,181	\$19,181
Level I	1,741	1,741	\$9.62	\$9.62	\$16,748	\$16,748
Total Direct Labor	13,286	13,286			\$242,191	\$242,191
Fringe Benefits					\$85,978	\$85,978
Engineering Overhead					\$210,949	\$210,949
Consultant Level IV Statistician					\$21,600	\$21,600
Temporary Level I Secretary Clerical					\$10,166	\$10,166
Subcontracts						
Subcontractor A					\$632,343	\$632,343
Subcontractor B					\$25,200	\$19,752
Total Subcontracts					\$657,543	\$652,095
Other Direct Costs					\$250,064	\$250,064
G&A					\$85,912	\$85,901
Subcontract Overhead					\$13,151	\$13,042
Total Estimated Cost					\$1,577,554	\$1,571,986
Fixed Fee					\$126,200	
Total Estimated Cost Plus Fixed Fee					\$1,703,754	

Contractor A

RFP #xxxxxxx-xx

Option Period I

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV	4,560	4,560	\$25.31	\$25.31	\$115,416	\$115,416
Level III	5,505	5,505	\$16.88	\$16.88	\$92,908	\$92,908
Level II	1,480	1,480	\$13.09	\$13.09	\$19,373	\$19,373
Level I	1,741	1,741	\$9.72	\$9.72	\$16,916	\$16,916
Total Direct Labor	13,286	13,286			\$244,613	\$244,613
Fringe Benefits					\$86,838	\$86,838
Engineering Overhead					\$213,058	\$213,058
Consultant Level IV Statistician					\$22,680	\$22,680
Temporary Level I Secretary Clerical					\$10,268	\$10,268
Subcontracts						
Subcontractor A					\$652,466	\$652,474
Subcontractor B					\$26,460	\$20,739
Total Subcontracts					\$678,926	\$673,213
Other Direct Costs					\$250,064	\$250,064
G&A					\$86,633	\$86,621
Subcontract Overhead					\$13,579	\$13,464
Total Estimated Cost					\$1,606,659	\$1,600,820
Fixed Fee					\$128,529	
Total Estimated Cost Plus Fixed Fee					\$1,735,188	

Contractor A

RFP #xxxxxxx-xx

Option Period II

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Accepted	Questioned
Level IV	4,560	4,560	\$25.56	\$25.56	\$116,570	\$0
Level III	5,505	5,505	\$17.05	\$17.05	\$93,838	\$0
Level II	1,480	1,480	\$13.22	\$13.22	\$19,566	\$0
Level I	1,741	1,741	\$9.81	\$9.81	\$17,085	\$0
Total Direct Labor	13,286	13,286			\$247,059	\$0
Fringe Benefits					\$87,706	\$0
Engineering Overhead					\$215,189	\$0
Consultant Level IV Statistician					\$23,814	\$0
Temporary Level I Secretary Clerical					\$10,370	(\$0)
Subcontracts						
Subcontractor A					\$673,325	\$16
Subcontractor B					\$27,784	\$6,008
Total Subcontracts					\$701,109	\$6,023
Other Direct Costs					\$250,064	\$0
G&A					\$87,367	\$12
Subcontract Overhead					\$14,022	\$120
Total Estimated Cost					\$1,636,701	\$6,156
Fixed Fee					\$130,928	
Total Estimated Cost Plus Fixed Fee					\$1,767,629	

Summary

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submittal A
RFP #xxxxxx-xx

Base Period

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV	2,910	2,910	\$28.30	\$28.30	\$82,341	\$82,341
Level III	4,995	4,995	\$18.36	\$18.36	\$91,688	\$91,688
Level II	1,520	1,520	\$15.01	\$15.01	\$22,823	\$22,823
Level I	2,725	2,725	\$9.16	\$9.16	\$24,960	\$24,960
Total Direct Labor	12,150	12,150			\$221,812	\$221,812
Fringe Benefits					\$84,289	\$84,289
Overhead					\$165,294	\$165,294
Other Direct Costs					\$49,936	\$49,936
G&A					\$70,380	\$70,380
Total Estimated Cost					\$591,710	\$591,710
Fixed Fee					\$40,633	\$40,633
Total Estimated Cost Plus Fixed Fee					\$632,343	\$632,343

Contractor A
 Subcontractor A
 RFP #xxxxxx-xx

Option Period I

Labor Category	Hours		Rate		Amount		
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted	Questioned
Level IV	2,910	2,910	\$29.29	\$29.29	\$85,223	\$85,223	\$0
Level III	4,995	4,995	\$19.00	\$19.00	\$94,897	\$94,897	\$0
Level II	1,520	1,520	\$15.54	\$15.54	\$23,621	\$23,621	\$0
Level I	2,725	2,725	\$9.48	\$9.48	\$25,834	\$25,834	\$0
Total Direct Labor	12,150	12,150			\$229,575	\$229,575	\$0
Fringe Benefits Overhead					\$87,239	\$87,239	\$0
					\$171,080	\$171,080	\$0
Other Direct Costs					\$49,936	\$49,936	\$0
G&A					\$72,607	\$72,607	\$0
Total Estimated Cost					\$610,437	\$610,437	\$0
Fixed Fee					\$42,037	\$42,038	(\$1)
Total Estimated Cost Plus Fixed Fee					\$652,474	\$652,474	(\$1)

Submittal A
RFP #xxxxxxx-xx

Option Period II

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV	2,910	2,910	\$30.31	\$30.31	\$88,206	\$88,206
Level III	4,995	4,995	\$19.66	\$19.66	\$98,218	\$98,218
Level II	1,520	1,520	\$16.08	\$16.08	\$24,448	\$24,448
Level I	2,725	2,725	\$9.81	\$9.81	\$26,738	\$26,738
Total Direct Labor	12,150	12,150			\$237,611	\$237,611
Fringe Benefits					\$90,292	\$90,292
Overhead					\$177,067	\$177,067
Other Direct Costs					\$49,936	\$49,936
G&A					\$74,912	\$74,912
Total Estimated Cost					\$629,818	\$629,818
Fixed Fee					\$43,492	\$43,491
Total Estimated Cost Plus Fixed Fee					\$673,310	\$673,309
						\$1

Subcontractor B
RFP #xxxxxxx-xx

Summary

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV-Statistician	120	120	--	--	\$17,654	\$11,822
Level IV-Statistician	390	390	--	--	\$32,786	\$30,225
Level I-Research Asst	552	552	--	--	\$29,003	\$20,221
Total Fully Loaded Labor	1,062	1,062			\$79,443	\$62,267
						\$17,176

RFP #xxxxxxx-xx

Base Period

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV-Statistician	40	40	\$140.00	\$93.75	\$5,600	\$3,750
Level IV-Statistician	130	130	\$80.00	\$73.75	\$10,400	\$9,588
Level I-Research Asst	184	184	\$50.00	\$34.86	\$9,200	\$6,414
Total Fully Loaded Labor	354	354			\$25,200	\$19,752
						\$5,448

Subcontractor B
RFP #xxxxxxx-xx

Option Period I

Labor Category	Hours		Rate		Amount		
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted	Questioned
Level IV-Statistician	40	40	\$147.00	\$98.44	\$5,880	\$3,938	\$1,943
Level IV-Statistician	130	130	\$84.00	\$77.44	\$10,920	\$10,067	\$853
Level I-Research Asst	184	184	\$52.50	\$36.60	\$9,660	\$6,735	\$2,925
Total Fully Loaded Labor	354	354			\$26,460	\$20,739	\$5,721

Contractor A
 Subcontractor B
 RFP #xxxxxxx-xx

Option Period II

Labor Category	Hours		Rate		Amount	
	Proposed	Accepted	Proposed	Accepted	Proposed	Accepted
Level IV-Statistician	40	40	\$154.35	\$103.36	\$6,174	\$4,134
Level IV-Statistician	130	130	\$88.20	\$81.31	\$11,466	\$10,570
Level I-Research Asst	184	184	\$55.12	\$38.43	\$10,143	\$7,072
Total Fully Loaded Labor	354	354			\$27,783	\$21,776
						\$6,007

Price Analysis on
Proposals Submitted by
Offeror A, Offeror B,
Offeror C, Offeror D,
Offeror E, Offeror F,
Offeror G, and Offeror H

Wxxxxxxx-xx

Prepared By: Washington Cost Advisory Operations
Dated: April 15, 199x

April 15, 199x

MEMORANDUM

SUBJECT: Price Analysis on Proposals Submitted by
Offeror A, Offeror B, Offeror C, Offeror D, Offeror E,
Offeror F, Offeror G, and Offeror H for Wxxxxxx-xx

FROM: John Doe, Auditor
Washington Cost Advisory Operations (PM-214-F)

THRU: James Doe, Chief
Washington Cost Advisory Operations (PM-214-F)

TO: Tony Doe, Contract Specialist
Administrative Contracts Procurement Section (PM-214-F)

In response to your request, dated March 23, 199x, we have performed a price analysis of the eight price proposals in response to the subject RFP. The offerors price proposals including amounts contained in this report have not been subjected to cost analysis. More specifically we express no opinion as to the accuracy of the proposed prices. The results of our price analysis of the subject offerors proposals are discussed below and summarized as follows:

<u>Contractor</u>	<u>Price Proposed</u>	<u>WCAO Calculation*</u>	<u>Difference</u>
Offeror A	\$12,831,600	\$14,831,600	(\$2,000,000)
Offeror B	10,412,725	10,412,725	-0-
Offeror C (Peak)	15,492,800	17,092,800	(1,600,000)
Offeror C (Off)	11,835,600	13,435,600	(1,600,000)
Offeror D	10,155,528	10,156,328	(800)
Offeror E	11,982,000	11,982,000	-0-
Offeror F	9,022,200	9,022,200	-0-
Offeror G	8,386,963	8,388,000	(1,037)
Offeror H	12,876,152	12,789,860	86,292

() Indicates an upward adjustment

*The results of the government technical report were not made available for incorporation into this report. We were unable to reach a definitive conclusion regarding the acceptability of all quantitative and qualitative aspects of the proposal by other available audit procedures. Accordingly, the results of this review are qualified to the extent that other costs may be questioned as a result of the Government technical evaluation.

Our review was limited to the following:

RFP Compliance

- (a) Determining if the offerors proposals are mathematically correct.
- (b) Determining if adequate SF 1411s are provided.
- (c) Determining if current financial statements are provided.
- (d) Determining if RFP specified labor hours and categories are proposed.
- (e) Determining the basis of proposed burdened labor rates.
- (f) Determining if adequate support exists for base labor rates.
- (g) Determining if adequate support exists for indirect rates.
- (h) Determining if other direct costs are proposed in accordance with the RFP.
- (i) Commenting on other pertinent contract issues (i.e. FCCOM, CAS, accounting system, etc.).

Comparative Price Analysis

- (1) Comparative analysis of proposed prices and WCAO determined prices.
- (2) Comparative analysis of proposed burdened labor rates for each RFP specified category, for the base period.
- (3) Comparative analysis of proposed and average proposed burdened labor rates for each RFP specified category, for all periods.

Based on the above review we have identified potential problems and prepared cost interrogatories for each offeror.

The results of our review of the individual offerors are as follows:

1. **Offeror A RFP Compliance.** The difference of (\$2,000,000) between the price proposed and WCAO's calculation is due to Offeror A's failure to propose RFP specified ODCs. No other adjustments were made to the offeror's price proposal.

Our review of the offeror's RFP compliance is summarized as follows:

a. **Mathematical Accuracy.** Offeror A's price proposal is mathematically correct.

b. **Adequate SF 1411s.** Offeror A has failed to provide adequate SF 1411s or SF 1412s. It is Offeror A's contention that they are exempt from providing detail cost data based on FAR

15.804-3 Exemptions from or waiver of submission of certified cost and pricing data.

Offeror A states they are exempt "under the following two exceptions that appear in FAR section 15.804-3:

- (1) Adequate competition; and
- (2) Established catalog or market prices of commercial items sold in substantial quantities to the general public."

Based on WCAO's interpretation of this clause there is no exemption for "adequate competition." Further, the offeror fails the test for exemption from "adequate price competition," since this procurement will not be awarded based on price competition. Section M.4 of the RFP states, "for this solicitation, technical quality is more important than cost or price."

Since the offeror failed to provide adequate SF 1412s we can not determine exemption based on "established catalog or market prices..."

Based on the above WCAO recommends the offeror be required to submit a completed SF 1411 and supporting data, as required by section L.16(b)(1) of the RFP.

c. Current Financial Statements. Offeror A stated, "they do not have audited financial statements." The RFP does not require audited financial statements. It does, however, require "a current financial statement, including a balance sheet and statement of profit and loss for the last completed fiscal period."

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

d. RFP Specified Labor Hours and Categories. Offeror A has proposed the RFP specified labor hours and categories.

e. Burdened Labor Rates. Offeror A failed to provide the basis of their proposed burdened labor rates. Accordingly, WCAO is unable to determine the individual components that were used to develop the proposed rates.

Based on the above WCAO recommends the offeror be required to indicate the basis of their proposed burdened labor rates.

f. Base Labor Rates. Offeror A failed to provide the detailed support for base labor rates.

Offeror A has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror A failed to provide detailed cost data on their indirect rates.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror A has failed to include the RFP specified ODCs in their price proposal. WCAO has included the RFP specified amounts for ODCs in our calculation.

Based on the above WCAO recommends the offeror be required to propose ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM, as a separate line item. We can not determine if FCCOM is included in the proposed burdened labor rates.

Based on the above WCAO recommends the offeror state whether they have or have not proposed FCCOM.

(2) Cost Accounting Standards. Offeror A stated they are not performing any CAS-covered national defense contracts or subcontracts.

Based on the above Offeror A is not a CAS-covered concern.

(3) Accounting System. We are unable to determine if the offeror has an acceptable accounting system.

Based on the above WCAO recommends the offeror be requested to provide a narrative description of their accounting system. This narrative should fully explain the offeror's time keeping system and job (project) cost accounting system. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. Since the offeror has failed to provide current financial statements we can not comment on financial capability.

Based on the above WCAO recommends the offeror be required to

submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

(5) Representations, Certifications and Other Statements of Offeror. Offeror A failed to complete Section K.23(1) and (m), of the RFP.

Based on the above WCAO recommends the offeror be required to complete Section K, of the RFP.

2. Offeror B RFP Compliance. WCAO has made no adjustments to the offeror's price proposal.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. Offeror B's price proposal is mathematically correct.

b. Adequate SF 1411. Offeror B has provide a SF 1411 for the total proposed contract period, for themselves and their proposed subcontractor XYZ. Offeror B has also provided schedules identifying cost or pricing data for each proposed period.

c. Current Financial Statements. Offeror B has provided financial statements for the twelve months ending September 30, 1991. The proposed subcontractor XYZ did not provide financial statements.

Since XYZ's proposed subcontract price is over \$1,000,000 WCAO recommends they be required to submit current financial statements, as described in section L.16(b)(1)(iii) of the RFP.

d. RFP Specified Labor Hours and Categories. Offeror B has proposed the RFP specified labor hours and categories.

e. Burdened Labor Rates. Offeror B has provided detailed support on the method used in computing their proposed burdened labor rates. XYZ has failed to provide detailed support for their burdened labor rate. Accordingly, WCAO is unable to determine the individual components that were used to develop the proposed rates.

Based on the above WCAO recommends the subcontractor be required to indicate the basis of their proposed burdened labor rates.

f. Base Labor Rates. Offeror B has provided partial support for their base labor rates. However, they did not provide the detailed individual or category rate data. XYZ failed to provide the detailed support for base labor rates.

Offeror B has indicated that clerical hours are estimated to be two percent of direct hours. Offeror B has factored \$.2922 per direct hour into their proposed rates. This rate was computed as follows:

$$(800 \text{ hrs.} \times \$14.61 = \$11,688) / 40,000 \text{ hrs.} = \$.2922 \text{ per hr}$$

Offeror B has not specifically addressed project management in their cost proposal.

Based on the above WCAO recommends the offeror and their proposed subcontractor be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror B has provided detailed pool and base data for their proposed indirect rates.

XYZ failed to provide detailed indirect rate data.

Based on the above WCAO recommends the proposed subcontractor be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror B has proposed ODCs in accordance with the RFP. WCAO noted no ODCs were allocated to the proposed subcontractor.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM.

Accordingly, WCAO recommends the clause in FAR 52.215-31 which waives the right to claim FCCOM be inserted into any resultant contract.

XYZ has not proposed FCCOM, as a separate line item. We can not determine if FCCOM is included in the proposed burdened labor rates.

Based on the above WCAO recommends the offeror state whether they have or have not proposed FCCOM.

(2) Cost Accounting Standards. Offeror B is a small business concern and therefore is not CAS-covered.

XYZ is an 8(a) business concern and therefore is not CAS-covered.

(3) Accounting System. We are unable to determine if the offeror and their proposed subcontractor have acceptable accounting systems.

Based on the above WCAO recommends the offeror and their proposed subcontractor be requested to provide a narrative description of their accounting systems. This narrative should fully explain their time keeping systems and job (project) cost accounting systems. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. WCAO performed the following ratio analysis on the financial statements (FYE September 30, 1991) provided by Offeror B.

<u>Ratios</u>	<u>Value</u>	<u>Potential Financial Jeopardy</u>
Current	2.69	Remote
Acid Test	2.69	Remote
Z Score	4.37	Remote

Based on the above ratios potential financial jeopardy is remote.

Offeror B's financial statements are unaudited. WCAO places less reliance on unaudited financial statements than those prepared by an independent Certified Public Accounting firm.

The proposed subcontractor XYZ did not provide financial statements. Accordingly, we can not review financial capability.

Since XYZ's proposed subcontract price is over \$1,000,000 WCAO recommends they be required to submit current financial statements, as described in section L.16(b)(1)(iii) of the RFP, for evaluation.

(5) Representations, Certifications and Other Statements of Offeror. Offeror B completed Sections K, as required.

XYZ failed to complete Section K of the RFP.

Based on the above WCAO recommends the proposed subcontractor be required to complete Section K, of the RFP.

3. Offeror C RFP Compliance. Offeror C has proposed two fixed hourly rates for each personnel classification, for each performance period. Offeror C has proposed a "peak rate" (12/1 - 3/31) and an "off peak rate" (4/1 - 11/30). Based on a telephone conversation with Mr. Edward J. Donahue, III, Principal, the proposed contract value will be determined based on when the work is planned. Accordingly, when a work order is issued Offeror C "will develop a detailed plan, including an estimate of hours required by category by month." Further, "based on the planned period during which the hours are expected to be work, Offeror C

will apply the billing rates related to each planned month of effort (each month individually being considered "peak" or "off peak.")"

WCAO has no objection to two rates being included in the contract, since it seems to be in the Government's best interest. However, since the RFP is silent regarding when the proposed effort will occur WCAO can not assume when the work will be performed. Accordingly, we have evaluated the price with all hours at the "peak rate" and all hours at the "off peak rate." The contract value would be somewhere between these amounts.

The difference of (\$1,600,000) between the price proposed and WCAO's calculation is due to Offeror C's failure to propose RFP specified ODCs, for all periods. No other adjustments were made to the offeror's price proposal.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. Offeror C's price proposal is mathematically correct with two exceptions. For Option Period 2 at the "peak rate" the offeror has proposed \$2,996,400. WCAO's calculation for this effort is \$2,996,000. Also, for Option Period 1 at the "off peak rate" the offeror has proposed \$2,134,400. WCAO's calculation for this period is \$2,135,200. No other errors were noted in the offeror's calculations.

b. Adequate SF 1411s. Offeror C has provided a SF 1411. However, they failed to complete item no. 6.

c. Current Financial Statements. Offeror C has not provided current financial statements. They provided financial statements for the period ending September 30, 1990.

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

d. RFP Specified Labor Hours and Categories. Offeror C has proposed the RFP specified labor hours and categories.

e. Burdened Labor Rates. Offeror C failed to provide the basis of their proposed burdened labor rates. Accordingly, WCAO is unable to determine the individual components that were used to develop the proposed rates. Further, Offeror C has stated they "intend to engage several regional CPA firms ..., as subcontractors in this project, to work at the locations indicated ..." No individual support was supplied for these subcontractors.

Based on the above WCAO recommends the offeror be required to

indicate the basis of their proposed burdened labor rates, including all proposed subcontract effort.

f. Base Labor Rates. Offeror C failed to provide the detailed support for base labor rates.

Offeror C has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror C failed to provide detailed cost data on their indirect rates.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror C has failed to include the RFP specified ODCs, for all periods. WCAO has included the RFP specified amounts for ODCs in our calculation.

Based on the above WCAO recommends the offeror be required to propose ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM, as a separate line item. We can not determine if FCCOM is included in the proposed burdened labor rates.

Based on the above WCAO recommends the offeror state whether they have or have not proposed FCCOM.

(2) Cost Accounting Standards. Offeror C is a small business concern and therefore is not CAS-covered.

(3) Accounting System. We are unable to determine if the offeror has an acceptable accounting system.

Based on the above WCAO recommends the offeror be requested to provide a narrative description of their accounting system. This narrative should fully explain the offeror's time keeping system and job (project) cost accounting system. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. Offeror C has failed to provide current financial statements. However, WCAO has

performed the following ratio analysis on the statements (fiscal year 1990) provided by Offeror C.

<u>Ratios</u>	<u>Value</u>	<u>Potential Financial Jeopardy</u>
Current	4.13	Remote
Acid Test	4.13	Remote
Z Score	5.28	Remote

Based on the above ratios potential financial jeopardy is remote.

Offeror C's financial statements are not current and are unaudited. WCAO places less reliance on unaudited financial statements than those prepared by an independent Certified Public Accounting firm.

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

(5) Representations, Certifications and Other Statements of Offeror. Offeror C failed to complete Section K.10 of the RFP.

Based on the above WCAO recommends the offeror be required to complete Section K, of the RFP.

4. Offeror D RFP Compliance. WCAO has made an \$800 adjustment to the offeror's price proposal due to a math error.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. WCAO discovered an error in Option 2 for the Senior Accountant category. The offeror's extended amount totals \$652,000. WCAO calculated this category to be \$652,800. No other errors were noted in the offeror's calculations.

b. Adequate SF 1411s. Offeror D has provided a SF 1411 for the base period only.

Based on the above WCAO recommends the offeror be required to submit a completed SF 1411 as required by section L.16(b)(1) of the RFP.

c. Current Financial Statements. Offeror D has provided financial statements for the twelve months ending May 31, 1991.

d. RFP Specified Labor Hours and Categories. Offeror D has

proposed the RFP specified labor hours and categories.

e. Burdened Labor Rates. Offeror D has provided detailed support on the method used in computing their proposed burdened labor rates.

f. Base Labor Rates. Offeror D failed to provide the detailed support for base labor rates.

Offeror D has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror D has failed to provide detailed data for their proposed 61.2 percent indirect rate.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror D has proposed ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM.

Accordingly, WCAO recommends the clause in FAR 52.215-31 which waives the right to claim FCCOM be inserted into any resultant contract or subcontract.

(2) Cost Accounting Standards. Offeror D stated they are not performing any CAS-covered national defense contracts or subcontracts.

Based on the above Offeror D is not a CAS-covered concern.

(3) Accounting System. We are unable to determine if the offeror has an acceptable accounting system.

Based on the above WCAO recommends the offeror be requested to provide a narrative description of their accounting system. This narrative should fully explain the offeror's time keeping system and job (project) cost accounting system. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. WCAO performed the following ratio analysis on the financial statements (FYE May 31, 1991) provided by Offeror D.

<u>Ratios</u>	<u>Value</u>	<u>Potential Financial Jeopardy</u>
Current	3.11	Remote
Acid Test	1.29	Remote
Z Score	5.92	Remote

Based on the above ratios potential financial jeopardy is remote.

Offeror D's financial statements are unaudited. WCAO places less reliance on unaudited financial statements than those prepared by an independent Certified Public Accounting firm.

(5) Representations, Certifications and Other Statements of Offeror. Offeror D failed to complete Sections K.1 and K.23(m) of the RFP.

Based on the above WCAO recommends the offeror be required to complete Section K, of the RFP.

5. Offeror E RFP Compliance. WCAO has made no adjustments to the offeror's price proposal.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. Offeror E's price proposal is mathematically correct.

b. Adequate SF 1411s. Offeror E has failed to provide adequate SF 1411s.

Based on the above WCAO recommends the offeror be required to submit completed SF 1411s, as required by section L.16(b)(1) of the RFP.

c. Current Financial Statements. Offeror E failed to provide current financial statements.

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

d. RFP Specified Labor Hours and Categories. Offeror E has proposed the RFP specified labor hours and categories with one exception. Offeror E has proposed a staff accountant in the place of the junior accountant. The description of the offeror's

staff accountant is the same as the RFP description for junior accountant.

e. Burdened Labor Rates. Offeror E has provided detailed support on the method used in computing their proposed burdened labor rates.

f. Base Labor Rates. Offeror E failed to provide the detailed support for base labor rates.

Offeror E has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror E has failed to provide detailed data for their proposed indirect rates.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror E has proposed ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM.

Accordingly, WCAO recommends the clause in FAR 52.215-31 which waives the right to claim FCCOM be inserted into any resultant contract or subcontract.

(2) Cost Accounting Standards. Offeror E is a small business concern and therefore is not CAS-covered.

(3) Accounting System. We are unable to determine if the offeror and their proposed subcontractor have acceptable accounting systems.

Based on the above WCAO recommends the offeror and their proposed subcontractor be requested to provide a narrative description of their accounting systems. This narrative should fully explain their time keeping systems and job (project) cost accounting systems. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. Since the offeror has failed

to provide current financial statements we can not comment on financial capability.

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

(5) Representations, Certifications and Other Statements of Offeror. Offeror E failed to complete Section K.23(f)(1)(m), of the RFP.

Based on the above WCAO recommends the offeror and their proposed subcontractor be required to complete Section K, of the RFP.

6. Offeror F. WCAO has made no adjustments to the offeror's price proposal.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. Offeror F's price proposal is mathematically correct.

b. Adequate SF 1411. Offeror F has provided SF 1411s for the total proposed contract period. Offeror F has also provided schedules identifying cost or pricing data for each proposed period.

c. Current Financial Statements. Offeror F has not provided current financial statements. They provided financial statements for the period ending December 31, 1990.

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

e. Burdened Labor Rates. Offeror F has provided detailed support on the method used in computing their proposed burdened labor rates.

f. Base Labor Rates. Offeror F failed to provide the detailed support for base labor rates.

Offeror F has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror F has failed to provide detailed

data for their proposed indirect rates.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror F has proposed ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM.

Accordingly, WCAO recommends the clause in FAR 52.215-31 which waives the right to claim FCCOM be inserted into any resultant contract or subcontract.

(2) Cost Accounting Standards. Offeror F is a small business concern and therefore is not CAS-covered.

(3) Accounting System. We are unable to determine if the offeror and there proposed subcontractor have acceptable accounting systems.

Based on the above WCAO recommends the offeror and their proposed subcontractor be requested to provide a narrative description of their accounting systems. This narrative should fully explain their time keeping systems and job (project) cost accounting systems. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. Offeror F has failed to provide current financial statements. However, WCAO has performed the following ratio analysis on the statements (fiscal year 1990) provided by Offeror F.

<u>Ratios</u>	<u>Value</u>	<u>Potential Financial Jeopardy</u>
Current	7.42	Remote
Acid Test	7.42	Remote
Z Score	8.55	Remote

Based on the above ratios potential financial jeopardy is remote.

Offeror F's financial statements are not current and are unaudited. WCAO places less reliance on unaudited financial statements than those prepared by an independent Certified Public Accounting firm.

Based on the above WCAO recommends the offeror be required to submit current financial statements, as required by section L.16(b)(1)(iii) of the RFP.

(5) Representations, Certifications and Other Statements of Offeror. Offeror F completed Sections K, as required.

7. Offeror G RFP Compliance. WCAO has made an \$1,037 adjustment to the offeror's price proposal due to a math error.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. WCAO discovered an error in the base period. The offeror's extended amount totals \$1,584,563. WCAO calculated this category to be \$1,585,600. No other errors were noted in the offeror's calculations.

b. Adequate SF 1411. Offeror G has provide SF 1411s for each proposed contract period.

c. Current Financial Statements. Offeror G has provided financial statements for the twelve months ending December 31, 1991.

e. Burdened Labor Rates. Offeror G has provided detailed support on the method used in computing their proposed burdened labor rates.

f. Base Labor Rates. Offeror G failed to provide the detailed support for base labor rates.

Offeror G has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror G has failed to provide detailed data for their proposed indirect rates.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror G has proposed ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM.

Accordingly, WCAO recommends the clause in FAR 52.215-31 which waives the right to claim FCCOM be inserted into any resultant contract or subcontract.

(2) Cost Accounting Standards. Offeror G is a small business concern and therefore is not CAS-covered.

(3) Accounting System. We are unable to determine if the offeror and there proposed subcontractor have acceptable accounting systems.

Based on the above WCAO recommends the offeror and their proposed subcontractor be requested to provide a narrative description of their accounting systems. This narrative should fully explain their time keeping systems and job (project) cost accounting systems. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. WCAO performed the following ratio analysis on the financial statements (FYE May 31, 1991) provided by Offeror G.

<u>Ratios</u>	<u>Value</u>	<u>Potential Financial Jeopardy</u>
Current	11.39	Remote
Acid Test	11.39	Remote
Z Score	10.48	Remote

Based on the above ratios potential financial jeopardy is remote.

Offeror G's financial statements are unaudited. WCAO places less reliance on unaudited financial statements than those prepared by an independent Certified Public Accounting firm.

(5) Representations, Certifications and Other Statements of Offeror. Offeror G completed Sections K, as required.

8. Offeror H RFP Compliance. WCAO has made an \$86,292 adjustment to the offeror's price proposal due to a math error.

Our review of the offeror's RFP compliance is summarized as follows:

a. Mathematical Accuracy. WCAO discovered an error in Option Period 2. The offeror's extended amount totals \$2,640,944. WCAO calculated this period to be \$2,554,652. No

other errors were noted in the offeror's calculations.

b. Adequate SF 1411. Offeror H has provided a SF 1411 for the base period only.

Based on the above WCAO recommends the offeror be required to submit completed SF 1411s, as required by section L.16(b)(1) of the RFP.

c. Current Financial Statements. Offeror H has provided financial statements for the twelve months ending December 31, 1991.

d. RFP Specified Labor Hours and Categories. Offeror H has proposed the RFP specified labor hours and categories.

e. Burdened Labor Rates. Offeror H has provided detailed support on the method used in computing their proposed burdened labor rates. However, the offeror has proposed subcontract effort. No detail is provided on how the subcontractors cost data is included in the burdened rate.

WCAO recommends the offeror be required to show how subcontractor cost data is factored into the proposed burdened rates.

f. Base Labor Rates. Offeror H failed to provide the detailed support for base labor rates.

Offeror H has not specifically addressed project management or clerical labor in their cost proposal.

Based on the above WCAO recommends the offeror be required to submit supporting data for their direct labor rates, as required by section L.16(b)(2) of the RFP.

g. Indirect Rates. Offeror H has failed to provide detailed data for their proposed indirect rates.

Based on the above WCAO recommends the offeror be required to submit detailed supporting computations for their indirect rates as required by section L.16(b)(3) of the RFP.

h. Other Direct Costs (ODCs). Offeror H has proposed ODCs in accordance with the RFP.

i. Other Matters.

(1) Facilities Capital Cost of Money (FCCOM). The offeror has not proposed FCCOM.

Accordingly, WCAO recommends the clause in FAR 52.215-31 which waives the right to claim FCCOM be inserted into any resultant contract or subcontract.

(2) Cost Accounting Standards. Offeror H is a small business concern and therefore is not CAS-covered.

(3) Accounting System. We are unable to determine if the offeror and their proposed subcontractor have acceptable accounting systems.

Based on the above WCAO recommends the offeror and their proposed subcontractor be requested to provide a narrative description of their accounting systems. This narrative should fully explain their time keeping systems and job (project) cost accounting systems. Further, they should provide a listing of the ledgers and journals included in these systems along with a brief description of each.

(4) Financial Capability. WCAO performed the following ratio analysis on the financial statements (FYE December 31, 1991) provided by Offeror H.

<u>Ratios</u>	<u>Value</u>	<u>Potential Financial Jeopardy</u>
Current	1.60	Remote
Acid Test	1.60	Remote
Z Score	3.79	Remote

Based on the above ratios potential financial jeopardy is remote.

Offeror H's financial statements are unaudited. WCAO places less reliance on unaudited financial statements than those prepared by an independent Certified Public Accounting firm.

(5) Representations, Certifications and Other Statements of Offeror. Offeror H and their proposed subcontractors omitted or failed to complete many parts of Section K, of the RFP. Many items were indicated "Not Applicable" (N/A) that should have been completed.

Based on the above WCAO recommends the offeror and their proposed subcontractors be required to resubmit Section K, Representations and Certifications, completely filled out.

7. Comparative Price Analysis Exhibits. WCAO has prepared tables and graphs comparing prices and rates in the exhibits of this report.

No financial monitoring reviews have been performed on any of the

proposed offerors.

As required by FAR Part 15.808(b), P&CMD Acquisition Handbook Units 3 (PAR.6) and 4 (PAR.4), please furnish us a copy of the Summary of Negotiations after contract award. Also, we have attached a Contracting Officer's Response Sheet. Part of our performance evaluation depends on the responses we receive from the Contracting Officer/Specialists we service. Please fill out the form and return it to Donald L. Hambric (PM-214-F).

If you have any questions or if we can be of further assistance, please contact me on 260-xxxx.

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Price Analysis - Total Price

Proposed Price vs. WCAO Determined

Price (\$)

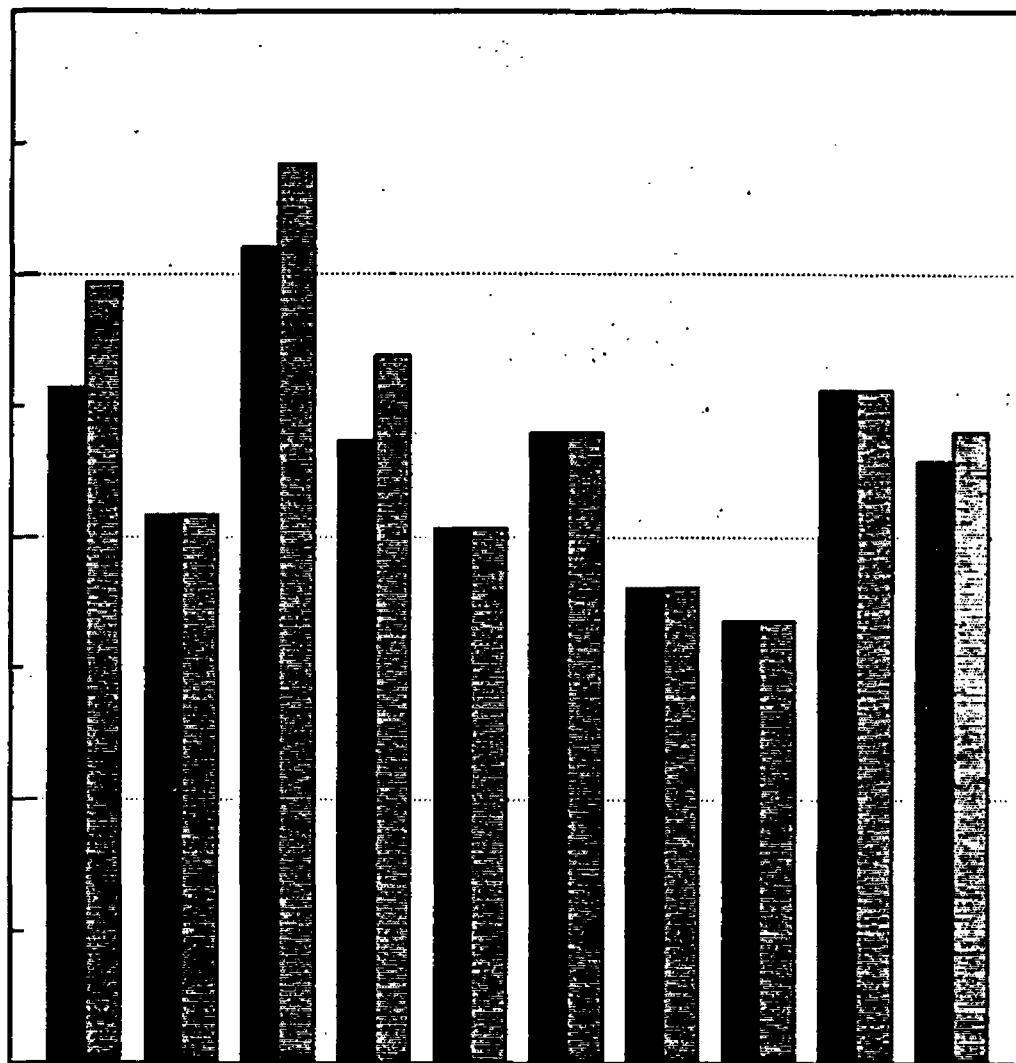
20,000,000

15,000,000

10,000,000

5,000,000

0



Offeror



Proposed
Price



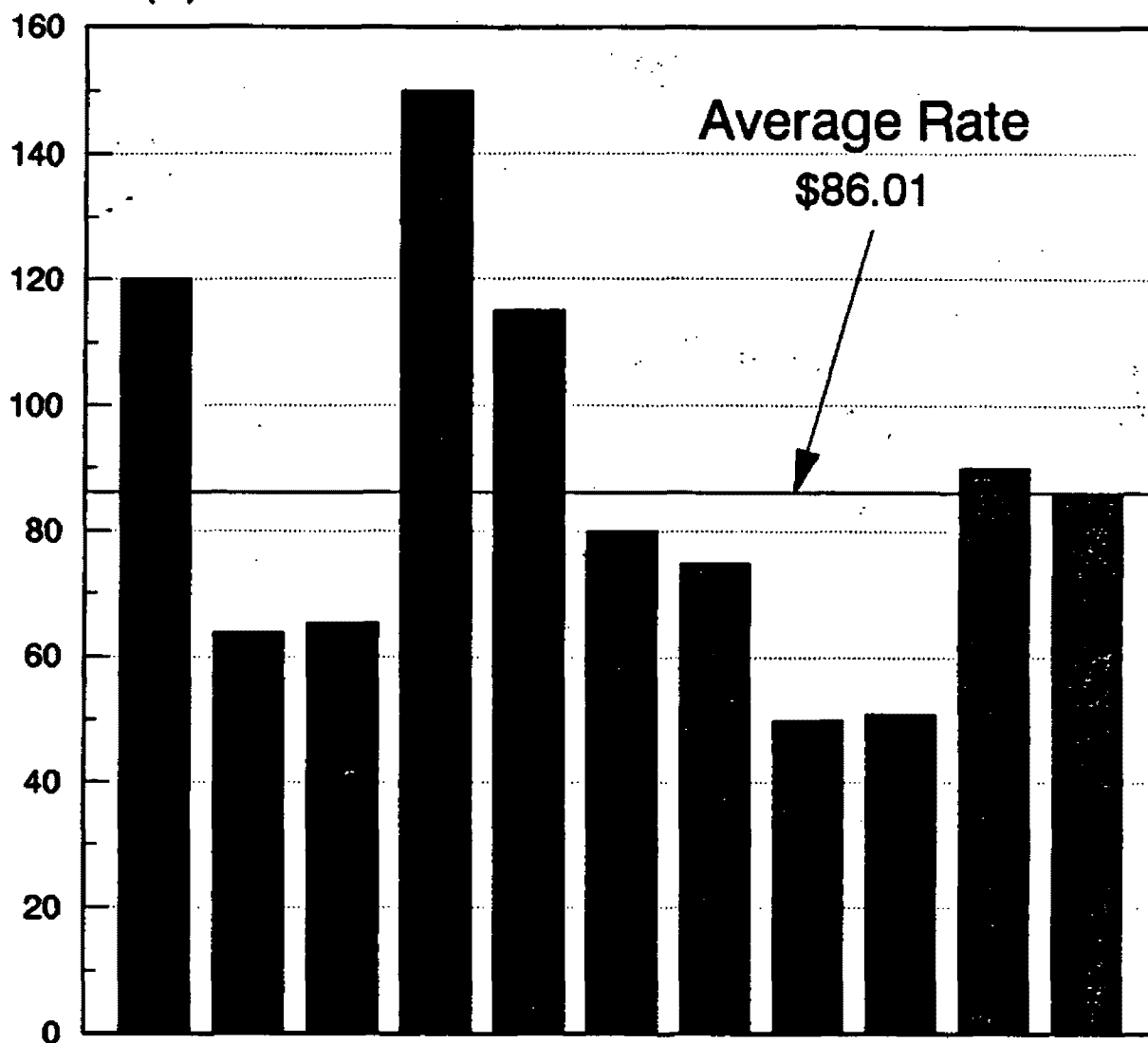
WCAO
Calculation

Price Analysis -
Total Price
Proposed Price vs. WCAO Determined

Offeror	Proposed Price	WCAO Calculation
	\$12,831,600	\$14,831,600
	10,412,725	10,412,725
	15,492,800	17,092,800
	11,835,600	13,435,600
	10,156,328	10,156,328
	11,982,000	11,982,000
	9,022,200	9,022,200
	8,388,000	8,388,000
	12,789,860	12,789,860
Average	11,434,568	12,012,346

Price Analysis - Comparison of Proposed Labor Rate Partner (Base Period)

Rate (\$)



Offeror

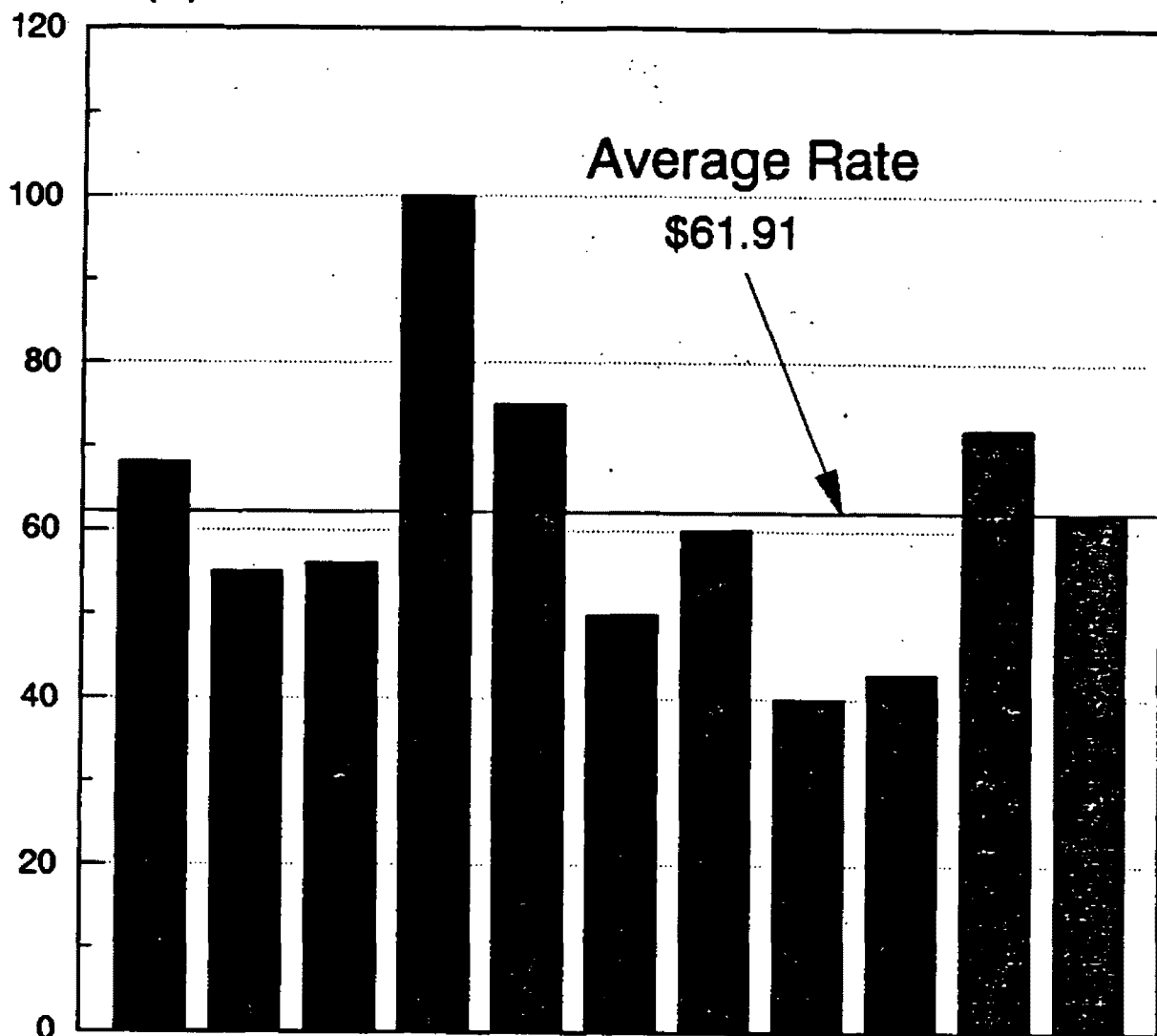
Partner

Price Analysis - Comparison of Proposed Labor Rate Partner (Base Period)

Offeror	Partner
	\$ 120.00
	63.78
	65.28
	150.00
	115.00
	80.00
	75.00
	50.00
	51.00
	90.00
Average	86.01

Price Analysis - Comparison of Proposed Labor Rate Manager/Supervisor (Base Period)

Rate (\$)



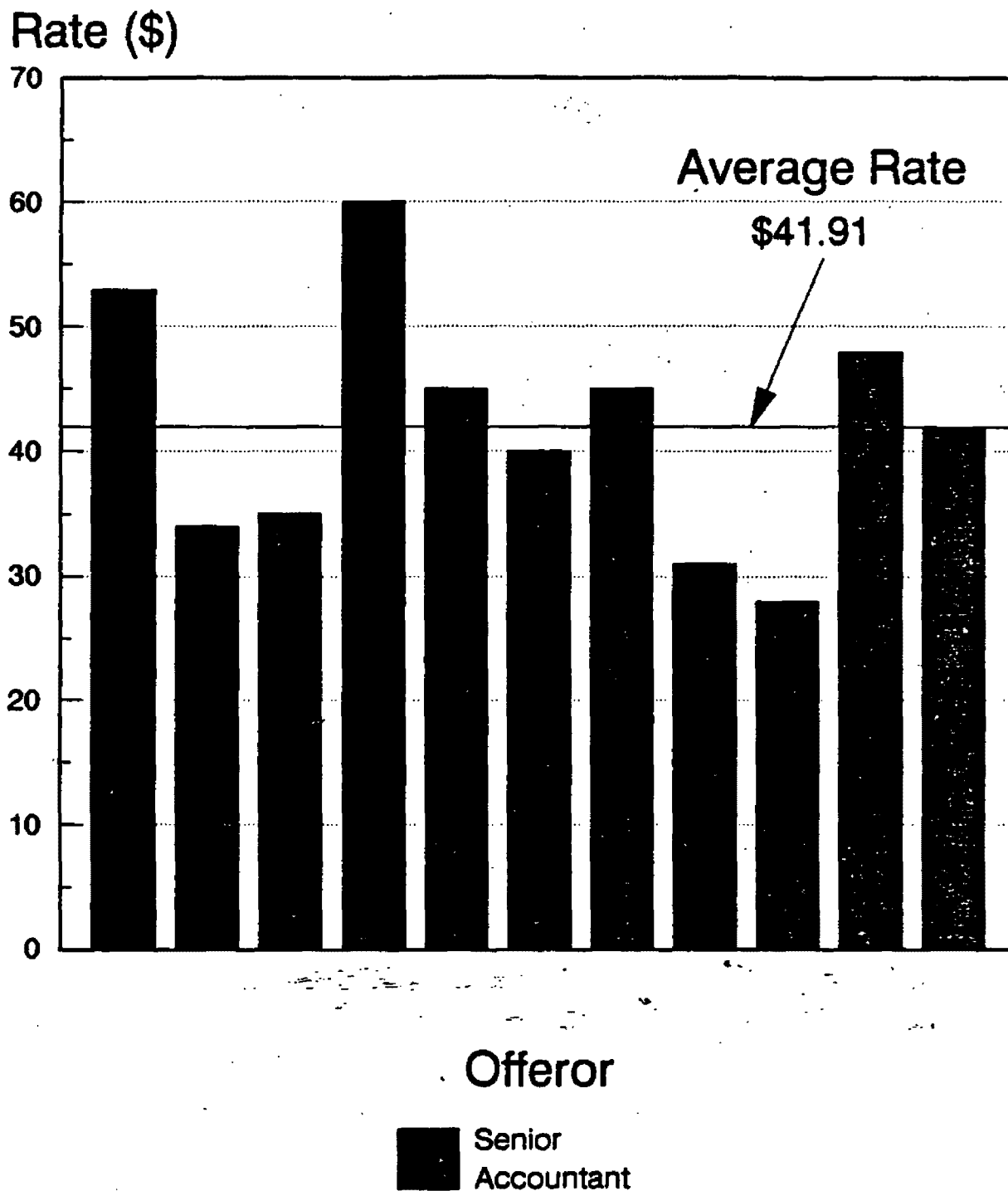
Offeror

Manager/
Supervisor

**Price Analysis -
Comparison of Proposed Labor Rate
Manager/Supervisor (Base Period)**

Offeror	Manager/ Supervisor
	\$ 68.00
	55.04
	56.04
	100.00
	75.00
	50.00
	60.00
	40.00
	43.00
	72.00
Average	61.91

Price Analysis - Comparison of Proposed Labor Rate Senior Accountant (Base Period)

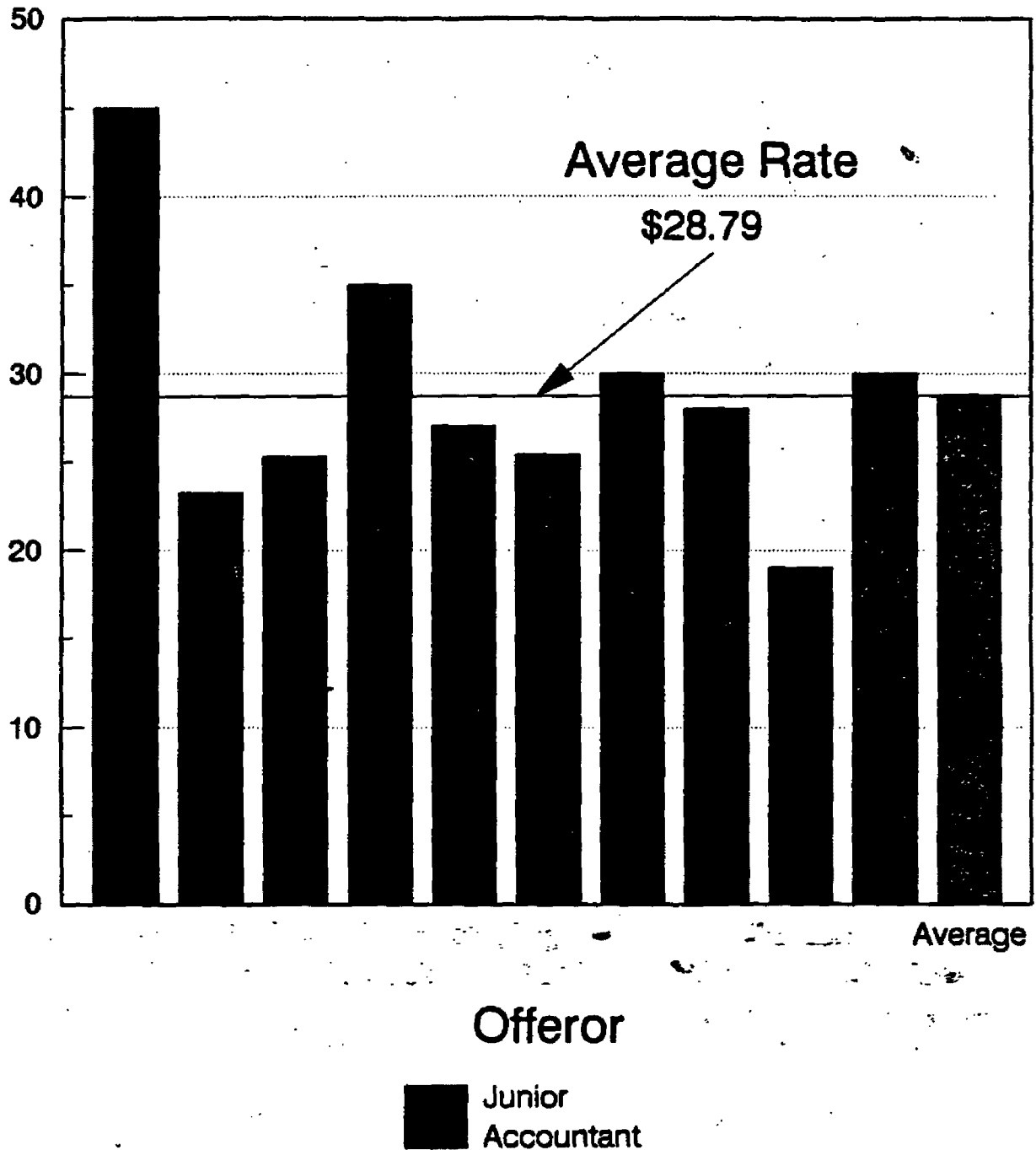


Price Analysis -
Comparison of Proposed Labor Rate
Senior Accountant (Base Period)

Offeror	Senior Accountant
	\$ 53.00
	34.03
	35.03
	60.00
	45.00
	40.00
	45.00
	31.00
	28.00
	48.00
Average	41.91

Price Analysis - Comparison of Proposed Labor Rate Junior Accountant (Base Period)

Rate (\$)



**Price Analysis -
Comparison of Proposed Labor Rate
Junior Accountant (Base Period)**

Offeror	Junior Accountant
	\$ 45.00
	23.25
	25.25
	35.00
	27.00
	25.40
	30.00
	28.00
	19.00
	30.00
Average	28.79

Price Analysis

Exhibit F
Page 1

Fixed Hourly Rates

Contract
Period

Partner

Base	\$120.00		\$63.78		\$65.28		\$150.00		\$115.00		\$80.00	
Option 1	128.00	5.00%	66.97	5.00%	68.55	5.01%	160.00	6.67%	123.00	6.96%	80.80	1
Option 2	132.00	4.76%	70.32	5.00%	71.97	4.99%	170.00	6.25%	132.00	7.32%	81.60	0
Option 3	139.00	5.30%	73.84	5.01%	75.57	5.00%	182.00	7.06%	141.00	6.82%	82.40	0
Option 4	146.00	5.04%	77.53	5.00%	79.35	5.00%	195.00	7.14%	151.00	7.09%	83.20	0
Contract Average	\$132.60		\$70.49		\$72.14		\$171.40		\$132.40		\$81.60	

Manager/Supervisor

Base	\$68.00		\$55.04		\$56.04		\$100.00		\$75.00		\$50.00	
Option 1	71.00	4.41%	57.79	5.00%	58.84	5.00%	108.00	8.00%	80.00	6.67%	50.50	1.
Option 2	75.00	5.63%	60.88	5.00%	61.78	5.00%	113.00	6.60%	85.00	6.25%	51.00	0.
Option 3	79.00	5.33%	63.71	4.99%	64.57	5.00%	121.00	7.06%	91.00	7.06%	51.50	0.
Option 4	83.00	5.06%	66.90	5.01%	68.12	5.01%	129.00	6.61%	97.00	6.59%	52.00	0.
Contract Average	\$75.20		\$60.82		\$61.93		\$113.80		\$86.60		\$51.00	

Senior Accountant

Base	\$53.00		\$34.03		\$35.03		\$60.00		\$45.00		\$40.00	
Option 1	56.00	5.66%	35.74	5.02%	36.79	5.02%	64.00	6.67%	48.00	6.67%	40.40	1.
Option 2	59.00	5.38%	37.52	4.98%	38.62	4.97%	68.00	6.25%	51.00	6.25%	40.80	0.
Option 3	62.00	5.08%	39.40	5.01%	40.56	5.02%	73.00	7.35%	55.00	7.84%	41.20	0.
Option 4	63.00	33.87%	41.37	5.00%	42.58	4.98%	78.00	6.85%	58.00	5.45%	41.60	0.
Contract Average	\$62.60		\$37.61		\$38.72		\$68.60		\$51.40		\$40.80	

Junior Accountant

Base	\$45.00		\$23.25		\$25.25		\$35.00		\$27.00		\$25.40	
Option 1	47.00	4.44%	24.42	5.03%	25.52	5.03%	37.00	5.71%	29.00	7.41%	25.65	0.9
Option 2	49.00	4.26%	25.84	5.00%	27.84	4.99%	40.00	8.11%	31.00	6.90%	25.91	1.0
Option 3	51.00	4.08%	26.82	4.99%	29.23	4.99%	43.00	7.50%	33.00	6.45%	26.16	0.9
Option 4	54.00	5.88%	28.28	4.96%	30.70	5.03%	48.00	6.96%	35.00	6.06%	26.42	0.9
Contract Average	\$49.20		\$25.70		\$27.91		\$40.20		\$31.00		\$25.91	

Price Analysis

Fixed Hourly Rates

Exhibit
Page

Contract Period		Esc. Factor		Esc. Factor		Esc. Factor		Esc. Factor	Average Rate	E Factor
Partner										
Base	\$75.00		\$50.00		\$51.00		\$90.00			
Option 1	79.00	5.33%	50.00	0.00%	53.00	3.92%	93.60	4.00%	\$86.01	4.00%
Option 2	83.00	5.06%	50.00	0.00%	55.00	3.77%	97.34	4.00%	90.09	4.00%
Option 3	87.00	4.82%	50.00	0.00%	57.00	3.64%	101.23	4.00%	94.32	4.00%
Option 4	91.00	4.60%	50.00	0.00%	59.00	3.51%	105.28	4.00%	98.90	4.00%
Contract Average	\$83.00		\$50.00		\$55.00		\$97.49		103.74	4.00%
Manager/Supervisor										
Base	\$60.00		\$40.00		\$43.00		\$72.00			
Option 1	63.00	5.00%	40.00	0.00%	45.00	4.65%	74.88	4.00%	\$61.91	4.00%
Option 2	66.00	4.76%	40.00	0.00%	46.00	2.22%	77.88	4.01%	64.70	4.00%
Option 3	69.00	4.55%	40.00	0.00%	47.00	2.17%	81.00	4.01%	67.63	4.00%
Option 4	72.00	4.35%	40.00	0.00%	48.00	2.13%	84.24	4.00%	70.81	4.00%
Contract Average	\$66.00		\$40.00		\$45.80		\$78.00		74.03	4.00%
Senior Accountant										
Base	\$45.00		\$31.00		\$28.00		\$48.00			
Option 1	47.00	4.44%	32.50	4.84%	29.00	3.57%	49.92	4.00%	\$41.91	4.00%
Option 2	49.00	4.26%	34.00	4.62%	30.00	3.45%	51.92	4.01%	43.94	4.00%
Option 3	51.00	4.08%	35.00	2.94%	31.00	3.33%	54.00	4.01%	45.99	4.00%
Option 4	54.00	5.88%	36.00	2.86%	32.00	3.23%	56.16	4.00%	48.22	4.00%
Contract Average	\$49.20		\$33.70		\$30.00		\$52.00		52.27	8.40%
Junior Accountant										
Base	\$30.00		\$28.00		\$19.00		\$30.00			
Option 1	32.00	6.67%	29.50	5.36%	20.00	5.26%	31.20	4.00%	\$28.79	5.00%
Option 2	34.00	6.25%	31.00	5.08%	21.00	5.00%	32.45	4.01%	30.23	5.10%
Option 3	36.00	5.88%	32.00	3.23%	22.00	4.76%	33.75	4.01%	31.78	5.10%
Option 4	38.00	5.56%	33.00	3.13%	23.00	4.55%	35.10	4.00%	33.31	4.70%
Contract Average	\$34.00		\$30.70		\$21.00		\$32.50		34.95	4.90%

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

DATE: January 29, 1992

SUBJECT: Preliminary Analytical Cost Evaluation Report (PACER)
on Proposals Submitted in Response to RFP XXXXXXXX-XX

FROM: Jane Doe, Auditor
Washington Cost Advisory Branch, (PM-214-F)

THRU: John Smith, Chief
Washington Cost Advisory Branch, (PM-214-F)

TO: Susan Jones, Contracting Officer
Administrative Contracts Procurement Section (PM-214-F)

In response to your request, we have performed a preliminary evaluation of the six offers received in response to the subject RFP. The contractors' cost proposals, including the amounts contained in this report, have not been subjected to technical evaluation or cost analysis. Specifically, we express no opinion on the fixed rates, other direct costs, travel, and indirect rates proposed. To the extent possible, we have reviewed the proposals for arithmetical accuracy and compliance with the terms of the RFP and will provide cost advisory reports on each proposal as requested. The prices proposed and the results of our review are discussed in detail in Exhibits A through F of this report and our summarized as follows:

	Proposed	Per Review*	Difference
Offeror A	\$8,397,500	\$8,397,500	\$ 0
Offeror B	7,351,500	7,352,000	(500)
Offeror C	6,855,533	6,855,533	0
Offeror D	7,149,771	7,219,315	(69,544)
Offeror E	8,959,110	8,959,110	0
Offeror F	6,971,361	6,971,361	0

() Indicates Increase

* Cost is inclusive of all fees including the prime contractor's fees.

For each offeror, we are including comments on the proposal (i.e. what items are proposed in accordance with the RFP instructions). We are also including recommended interrogatories for each offeror. Our recommended comments and interrogatories are based on our interpretation of the RFP. If we have incorrectly

interpreted the RFP in any area, we will be available to meet with you for clarification and will assist you in any required editing of the recommended comments and interrogatories.

If you have any questions or if we can be of further assistance, please contact Jane Doe on 260-XXXX.

We have enclosed a contracting officer's response sheet. Part of our performance evaluation depends on the responses we receive from the contracting officers/specialists we service. Please fill out this form and return it to Don Hambric (PM-214-F).

Offeror A submitted a SF 1412 "Claim for Exemption From Submission of Certified Cost or Pricing Data". Offeror A claims exemption from the requirements for submitting certified cost or pricing data on the basis that the prices offered are market prices of commercial items sold in substantial quantities to the general public. The instructions for the SF1412 state a "Market price is a current price, established in the usual and ordinary course of trade between buyers and sellers free to bargain, that can be substantiated from sources independent of the manufacturer or vendor. There must be a sufficient number of commercial buyers so that their purchases establish an ascertainable current market price for the item or service. The nature of this market should be described. To justify a market-price exemption, the item or service being purchased must be identical to the commercial item or service or must be so similar in material and design (for services) or in work and facilities (for services) that any price difference or its absence can be evaluated solely by price analysis (see FAR 15.805-2). In the latter case, a statement must be attached identifying the specific differences and explaining, by price analysis of the differences, how the proposed price is derived from the market price." Offeror A states the proposed fixed rates for each labor category are based on the offeror's "standard rate" for that labor category. The "standard rate" constitutes the rate for which Offeror A to be compensated for its professional services. The Offeror A standard rates were then adjusted to reflect the best estimate of the rates at which services are sold in substantial quantities to the public. These market rates were then further adjusted downward for the proposed rates.

Offeror A did not submit their most current financial statements as required by the RFP. In their proposal, Offeror A states as a partnership and not a corporation they do not have audited financial statements of the type requested in the solicitation - i.e., a balance sheet and statement of profit and loss. Offeror A further states they do have the financial resources to perform the contract and are prepared to discuss financial capability with the contracting officer.

Fixed Rates for Labor Categories

Offeror A proposed fixed rates for all the labor categories specified in Section B, Clause B.1 of the RFP. All hours were proposed in accordance with the RFP.

Section B, Clause B.1 of the RFP states the fixed rates should cover all expenses, including report preparation, salaries, overhead, general and administrative expenses, and profit. Offeror A did not provide a detailed breakdown of how the

proposed fully burdened fixed rates were developed. In the proposal, Offeror A states their accounting system does not provide the full detail of costs such as direct labor, fringe expenses, overhead, other direct costs, and general and administrative expenses in precisely the format required for federal cost-type contracts and the Cost Accounting Standards Board.

Travel and Other Direct Costs

Offeror A proposed travel and other direct costs in accordance with the RFP Section B, Clause B.3. Offeror A did not apply a G&A rate to the proposed travel and other direct costs.

We recommend the following interrogatories be addressed to Offeror A:

1. You claimed exemption from the requirements for submitting certified cost or pricing data on the basis that the prices offered are market prices of commercial items sold in substantial quantities to the general public. The instructions for a SF1412 state a "Market price is a current price, established in the usual and ordinary course of trade between buyers and sellers free to bargain, that can be substantiated from sources independent of the manufacturer or vendor. There must be a sufficient number of commercial buyers so that their purchases establish an ascertainable current market price for the item or service. The nature of this market should be described. To justify a market-price exemption, the item or service being purchased must be identical to the commercial item or service or must be so similar in material and design (for services) or in work and facilities (for services) that any price difference or its absence can be evaluated solely by price analysis (see FAR 15.805-2). In the latter case, a statement must be attached identifying the specific differences and explaining, by price analysis of the differences, how the proposed price is derived from the market price." Please provide this information to support your claimed exemption from the requirements for submitting certified cost or pricing data on the basis that the prices offered are market prices of commercial items sold in substantial quantities to the general public.

2. In your proposal, you state as a partnership and not a corporation you do not have audited financial statements of the type requested in the solicitation - i.e., a balance sheet and statement of profit and loss. Please provide audited or unaudited financial statements appropriate for a partnership.

3. You did not provide a detailed breakdown of how the proposed fully burdened fixed rates were developed. In the proposal, you state your accounting system does not provide the full detail of costs such as direct labor, fringe expenses, overhead, other direct costs, and general and administrative expenses in precisely the format required for federal cost-type contracts and the Cost Accounting Standards Board. You further state the proposed fixed rates for each labor category are based on your "standard rate" for that labor category. The "standard rate"

constitutes the rate for which you seek to be compensated for the professional services. Your standard rates were then adjusted to reflect your best estimate of the rates at which your services are sold in substantial quantities to the public. These market rates were then further adjusted downward for the proposed rates. Please provide a detailed breakdown showing how your proposed rates were developed from your standard rates. Also provide the detailed basis of your standard rates.

Offeror B

RFP XXXXXXXX-XX

Offeror B did not correctly fill out the SF 1411. Offeror B did not include the prices for the services and the travel and the other direct costs on the SF 1411.

Offeror B submitted their 1990 financial statements.

Offeror B proposed twelve subcontractors. Please see Note 5 under Section A of their business proposal for a list of proposed subcontractors. However, Offeror B did not segregate the subcontractor costs from the prime costs. The subcontractors also did not submit completed SF1411s, representations and certifications, and current financial statements as required by the RFP.

Fixed Rates for Labor Categories

Offeror B proposed fixed rates for all the labor categories specified in Section B, Clause B.1 of the RFP. All hours were proposed in accordance with the RFP.

Please note that Offeror B made a math error in the computation of the total price for the labor categories in Option Period II. Offeror B proposed \$1,773,000. However, the correct price should be \$1,773,500.

Section B, Clause B.1 of the RFP states the fixed rates should cover all expenses, including report preparation, salaries, overhead, general and administrative expenses, and profit. Offeror B did not provide a detailed breakdown of how the proposed fully burdened fixed rates were developed.

Travel & Other Direct Costs

Offeror B proposed travel and other direct costs in accordance with the RFP Section B, Clause B.3. Offeror B did not apply a G&A rate to the proposed travel and other direct costs.

Offeror B

RFP XXXXXXXX-XX

We recommend the following interrogatories be addressed to Offeror B:

1. You did not correctly fill out the SF1411. You did not include the prices for the labor categories and the travel and other direct costs on the SF1411. Please include these costs on your SF1411.

2. You submitted your 1990 financial statements. However, the RFP requests that you submit your most current financial statements. Please provide your audited or unaudited 1991 financial statements if they are available.

3. You proposed twelve subcontractors. However, you failed to segregate your subcontractor costs from your costs. Please provide detailed information on your subcontractor costs.

Your subcontractors also did not submit completed SF1411s, representations and certifications, and their most current financial statements as required by the RFP. Please have your subcontractors provide this information.

4. You made a math error in the computation of the total price for the labor categories in Option Period II. You proposed \$1,773,000. However, the correct price should be \$1,773,500. Please correct this error.

5. You did not provide a detailed breakdown of how the proposed fully burdened fixed rates were developed. Please provide.

Offeror C

RFP XXXXXXXX-XX

Offeror C submitted completed SF1411s, representations and certifications, and current financial statements as required by the RFP.

Offeror C proposed Subcontractor A as a subcontractor. The subcontractor did not submit completed SF1411s as required by the RFP.

Fixed Rates for Labor Categories

Offeror C proposed fixed rates for all the labor categories specified in Section B, Clause B.1 of the RFP. All hours were proposed in accordance with the RFP.

Please note Offeror C did provide a detailed breakdown of how the proposed fully burdened fixed rates were developed.

Travel & Other Direct Costs

Offeror C proposed travel and other direct costs in accordance with the RFP Section B, Clause B.3. Offeror C did not apply a G&A rate to the proposed travel and other direct costs.

Offeror C

RFP XXXXXXXX-XX

We recommend the following interrogatory be addressed to Offeror C:

1. Your subcontractor A did not submit completed SF1411s as required in the RFP. Please have your subcontractor provide this information.

Offeror D submitted completed SF1411s, representations and certifications, and current financial statements as required by the RFP.

Offeror D proposed two subcontractors, Sub A and Sub B. The subcontractors did not submit completed SF1411s, representations and certifications, and their most current financial statements as required in the RFP.

Fixed Rates for Labor Categories

Offeror D proposed fixed rates for all the labor categories specified in Section B, Clause B.1 of the RFP. In Option Period II, the offeror did not propose 262 hours of the RFP-specified hours for the partner labor category. This error caused a \$69,543 understatement of their price. All other hours were proposed in accordance with the RFP.

Section B, Clause B.1 of the RFP states the fixed rates should cover all expenses, including report preparation, salaries, overhead, general and administrative expenses, and profit. The two subcontractors did not provide a detailed breakdown of how their proposed fully burdened fixed rates were developed.

Travel & Other Direct Costs

Offeror D proposed travel and other direct costs in accordance with the RFP Section B, Clause B.3. Offeror D applied a 12.49% G&A rate to the proposed travel and other direct costs.

We recommend the following interrogatories be addressed to Offeror D:

1. You proposed two subcontractors, Sub A and Sub B. Your subcontractors did not submit completed SF1411s, representations and certifications, and their most current financial statements as required in the RFP. Please have your subcontractors provide this information.

2. In Option Period II, you did not propose 262 hours of the RFP-specified hours for the partner labor category. This error caused a \$69,543 understatement of your price. Please correct this error.

3. Section B, Clause B.1 of the RFP states the fixed rates should cover all expenses, including report preparation, salaries, overhead, general and administrative expenses, and profit. Your two subcontractors did not provide a detailed breakdown of how their proposed fully burdened fixed rates were developed. Please have your subcontractors provide this information.

Offeror E

RFP XXXXXXXX-XX

Offeror E did not submit financial statements as requested in the RFP. In the proposal, Offeror E states as a private partnership they do not publicly disclose financial data or results of operations. They further state they are a U.S. partnership with approximately 1,500 partners with partnership equity in excess of \$400,000,000 and annual sales of approximately \$1 billion. They also state that they have the financial capability to perform this contract.

Fixed Rates for Labor Categories

Offeror E proposed fixed rates for all the labor categories specified in Section B, Clause B.1 of the RFP. All hours were proposed in accordance with the RFP.

Section B, Clause B.1 of the RFP states the fixed rates should cover all expenses, including report preparation, salaries, overhead, general and administrative expenses, and profit. Offeror E did not provide a detailed breakdown of how the proposed fully burdened fixed rates were developed.

Travel & Other Direct Costs

Offeror E proposed travel and other direct costs in accordance with the RFP Section B, Clause B.3. Offeror E applied a 10.14% G&A rate to the proposed travel and other direct costs.

Offeror E

RFP XXXXXXXX-XX

We recommend the following interrogatories be addressed to Offeror E:

1. In your proposal, you state that as a private partnership you do not publicly disclose financial data or results of operations. Therefore, you did not submit financial statements as requested in the RFP. You also state in your proposal that you have the financial capability to perform this contract. However, you provided no supporting documentation to substantiate this claim. Please provide the following information for your most recent fiscal year:

- Current Assets
- Current Liabilities
- Total Assets
- Partner's Equity
- Earnings Before Interest & Taxes
- Current Debt
- Long-term Debt
- Sales
- Cash
- Accounts Receivable
- Short-term Investments

Also provide the supporting documentation for these amounts.

2. Section B, Clause B.1 of the RFP states 'the fixed rates should cover all expenses, including report preparation, salaries, overhead, general and administrative expenses, and profit. You did not provide a detailed breakdown of how the proposed fully burdened fixed rates were developed. Please provide this information.

Offeror F

RFP XXXXXXXX-XX

Offeror F submitted completed SF1411s, representations and certifications, and current financial statements as required by the RFP.

Offeror F proposed Subcontractor C as a subcontractor. The subcontractor did not submit financial statements as requested in the RFP. In the proposal, Subcontractor C states as a private partnership they do not publish their financial statements. However, they state that they will make a copy of their financial statements available to the contracting officer on a confidential basis at the time of negotiations.

Fixed Rates for Labor Categories

Offeror F proposed fixed rates for all the labor categories specified in Section B, Clause B.1 of the RFP. All hours were proposed in accordance with the RFP.

Please note Offeror F did provide a detailed breakdown of how the proposed fully burdened fixed rates were developed.

Travel & Other Direct Costs

Offeror F proposed travel and other direct costs in accordance with the RFP Section B, Clause B.3. Offeror F did not apply a G&A rate to the proposed travel and other direct costs.

Offeror F proposed Consultant A as a consultant. Consultant A proposed the following positions:

Project Manager
Senior Analyst
Software Specialist
Programmer
Technical Writer/Editor

In addition, Consultant A expects to incur travel and other direct costs. Consultant A's cost is \$788,125 for the entire period of performance. Please note that Consultant A's proposed costs are considered part of the \$2,400,000 RFP-specified amount for travel and other direct costs.

Offeror F

RFP XXXXXXXX-XX

We recommend the following interrogatories be addressed to Offeror F:

1. Your subcontractor, Subcontractor C, did not submit financial statements as requested in the RFP. However, Subcontractor C states they will make a copy of their financial statements available to the contracting officer on a confidential basis. Please have your subcontractor make a copy of their financial statements available to the contracting officer.
2. You proposed Consultant A as a consultant. Based on our review of your proposal, we believe that Consultant A should be proposed as a subcontractor. Please have Consultant A provide completed SF1411s, representations and certifications, and their most current financial statements as required in the RFP. Also have Consultant A provide detailed supporting computations for their proposed indirect rate unless the proposed rate has recently been accepted by a contracting agency of the Government.



Preliminary Review of RFP No. W002846A3



Telecommunications Services for EPA's
National Data Processing Division

Prepared By: Washington Cost Advisory Operations

Date: November 14, 1990



Office of Administration

Procurement and Contracts Management Division



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

DATE: November 14, 1990

SUBJECT: Comments on RFP W002846A3
Telecommunications Services for EPA's
National Data Processing Division

FROM: Bonnie C. Kane-Sharp, Auditor
Washington Cost Advisory Operations (PM-214-F)

THRU: Martha B. Cook, Acting Chief
Washington Cost Advisory Operations (PM-214-F)

TO: Bonnie Brandon, Contract Specialist
ADP Procurement Section (PM-214-F)

In response to your request, we have performed a review of the subject RFP. Our comments are as follows:

1) Section B.1 (a) states "....The Government will order 32,000 direct labor hours." Unless we are certain that we will order the hours, we strongly suggest the word will be changed to may order or estimates it will order.

2) Section H-14 states in the last sentence of the first paragraph "...The Government's level of effort is as..." Unless we are certain we will order the specified level of effort, we strongly suggest the sentence be changed to read: The Government's estimated level of effort is as.....

3) Section J.1 provides a list of the attachments to the RFP. Our comments on the following cost related attachments are as follows:

Attachment L-4 - Staffing Model. Refer to our comments on under Notes 4, 5, 6 and 11 below.

Attachment L-5 - Salary Model. No comment.

Attachment L-6 - Cost Proposal Model. Refer to our comments under Notes 7 and 8 below which could possibly require the offeror to modify the pricing model.

Attachment L-7 - LOTUS 1-2-3 Requirements. Refer to our comments under Notes 7 and 8 below which could possibly require the offeror to modify the pricing model.

4) Section L.19.5.2 Direct Labor comment on Column 11* (page 113) states "... (Note: This salary figure should be the same as that in Column 8)". Is this a correct statement? Is it the government's intention to allow 0% escalation on labor for Option Period 1? If this is EPA's intention, no change is necessary. If this is not our intention, then the statement should be modified accordingly.

5) Section L.19.5.2 - Direct Labor - Page 112. The instructions refer to Attachment L-4 and our comment is concerning the FTE's used in Columns 9 and 12 of the attachment. We feel the government should consider using total labor hours or rounding the FTE requirements out two or three decimal places to have a more precise measurement (for example, the base period S10 Project Manager is shown as .2 versus .167). Refer also to our comments under Notes 6 and 11 concerning Attachment L-4 and consistency of treatment.

6) Section L.19.5.2(a) - page 113. The last sentence is as follows: "(Note: The Salary Model assumes a 2000 hour FTE work year for all positions. Offeror must not deviate from this amount)". WCAO assumes the 2000 hour FTE work year referenced in the RFP means hours available for productive work on the contract. Since different EPA contractors have varied policies which determine their productive man year, comparison problems can result in competitive pricing. Therefore the above EPA requirement, that offerors not deviate from a 2000 hour FTE work year, could also result in the offerors over or under estimating their proposed costs and cause them to be in violation of CAS 401.

Generally, the Government specifies a man year/work year when requiring dedicated full-time personnel for a procurement, otherwise they specify required LOE hours. We asked the requestor if this procurement would require dedicated personnel and the response was:

"The only dedicated personnel would be those listed in the Key Personnel Clause. However, man-years vs labor hours were used to discourage vendors from staffing the procurement with several part-time employees and to encourage them to provide EPA with a staff of full-time employees."

It appears that EPA would like to have a staff of dedicated personnel, however unless it is a specific requirement of the RFP, there is no way to prevent offerors from proposing or using part-time employees and/or making changes to personnel during contract performance. Therefore, we recommend that if it is EPA's desire to have dedicated personnel on this procurement, then state it in the RFP. Additionally, we recommend where a dedicated full-time employee is desired, the RFP not specify direct labor hours (example a 2000 hour FTE work year). The RFP should require the responding offerors to propose man years based on their company

policy and provide a detailed explanation of how the man year is derived, along with the detailed explanation/computation of their proposed individual salary column amounts. We have also attached a copy of the May 1990 issue of The Washington Cost Advisor which provides an article entitled "RFP Specified Hours vs Specified Man-years" provides detail examples of what can occur when the Government specifies a specific productive man year for vendors. Further, if this RFP does not require offerors to provide full-time dedicated personnel, we recommend the RFP be modified to specify required/estimated LOE hours instead of FTE work years.

7) Section L.19.5.3 - Indirect Costs (Overhead and General and Administrative Expense) - Page 113. The RFP should contain this or a similar comment: If an offeror has indirect expense pools which differ from those listed, please propose in accordance with your normal accounting practice, modify the EPA pricing model accordingly and provided an explanation of your indirect expense pools in your cost proposal.

8) Section L.19.5.4 Other Direct Costs (ODCs) - page 114. The RFP states: "If an offeror proposes "Other Direct Costs" that are not listed below, these costs will not be evaluated." Has EPA given any consideration to contractors whose normal accounting practice is to propose and book other ODC elements besides those specified below direct to contracts? We recommend you include a comment in the RFP such as this: If it is your normal accounting practice is to propose and book other ODC elements besides those specified below by EPA direct to contracts, please indicate this in your proposal and modify the EPA attachments accordingly. We also recommend you include an additional comment in the RFP such as this: If it is your normal practice to recover such ODC items in your indirect cost pool, please indicate this in your proposal and modify the EPA attachments accordingly. The government should not cause any offeror to change their normal accounting practices to simply accommodate this RFP because it could result in higher costs on other contracts.

9) Section L.19.5.4 Other Direct Costs (ODCs) - page 114. Directly below paragraph no. 2 is the following:

Base Period	Option Period 1*
HOURS	DOLLARS
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The word hours above should be corrected to read dollars.

10) Section L.19.5.4.(d) Other Direct Costs (ODCs) Facilities - Page 116. EPA states: "Offerors are encouraged to propose on the basis of assuming existing building leases at RTP and WIC. Because the Government must pay termination costs of approximately \$_____ if these leases are not continued,..."

Do we provide the offerors with the necessary data to allow them to propose at existing lease prices? Is this information provided elsewhere in the RFP? If yes, then we should make reference to the information here. If no, then how will an offeror know what to propose and who the existing lease holders are? Are we being bias to the incumbent contractor?

11) Section L 19.6 Additional Services - OPTIONS - Page 117. Under (b) Option for the Government to Order Incremental Quantities, the RFP makes reference to the number of equivalent hours and states the "Cost figures for options hours on Attachment L-4 should be calculated as..." Are we going to provide the offerors with another Attachment L-4 to be completed for the Additional Services - OPTIONS or is each offeror responsible for creating their own? Have we already provided the offerors with an allocation of hours per labor category for the additional services options or is it left up to the offerors to decide? Note also that the current Attachment L-4 is using a FTE work year to compute the labor costs and here we are using total labor hours. It is our opinion that EPA should be consistent and use the FTE man year or the total estimated labor hours and our preference is the labor hours because it will be a more precise measurement (Refer also to our comments under Notes 5 and 6 concerning Attachment L-4.). We also note that on the bottom of page 117 is the following: "OPTION HOURS*", however there is no further explanation detailing the need for the "*". Perhaps it was EPA's intention to give the offerors information on converting the hours to FTE man years and if so this should be clarified.

12) Section L.19.5 - Cost or Pricing Instructions - Beginning on page 111. In order to ascertain the offerors have proposed all RFP LOR and specified ODCs, any offeror who proposes subcontractor effort should be required to provide a supplemental schedule summarizing the labor hours or FTE work years and ODC's allocation proposed by the offeror and each subcontractor. The offeror should also be required to state the basis of the hours or FTE work years and ODC's allocation to each subcontractor.

We have no other comments.

If we can be of further assistance, please contact Bonnie C. Kane-Sharp at (202) 382-3227.

Attachment

THE WASHINGTON COST ADVISOR

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Uncompensated Overtime

An Auditor's Approach

Often contractors salaried personnel are "exempt" and do not receive payment for hours worked beyond eight hours per day or forty hours per week. These employees simply charge eight hours per day and no accounting is made of those excess hours. Some contractors require "exempt" personnel to charge all hours worked to various projects for accounting purposes and distribute those hours to various cost objectives. This method distributes the employees regular salary into various projects based on hours shown on the time card.

In performing cost analysis reviews we are to determine what the offeror's practice is and if labor costs are charged to the proper cost center on an equitable basis. Since labor costs or hours are often the basis for allocating indirect costs, it is particularly important that labor costs are properly charged. We also review the offeror's policies and procedures to determine managements position on labor charging.

Most government contractors where the Defense Contract Audit Agency is cognizant record all hours worked, since it is DCAA's position this is the most equitable basis for distribution of labor costs.

The three most acceptable methods of accounting for uncompensated overtime are as follows:

Computing a different rate each pay period based on the salary divided by the actual hours worked.

A pro rata distribution for the period, i.e. 50/50, 60/40, etc. based on what projects the employee will be working on.

Computing a rate based on the hours an employee will work, any variance is charged/credited to overhead.

In evaluating competitive proposals care should be taken to ensure that offerors are compared fairly. There is an incentive for contractors to dilute their rate by increasing the work-hour basis.

An example of this problem is illustrated below. Here a salaried employee earning \$40,000 a year is proposed for 1860 hours.

Offeror's Salary @ \$40,000 for 1860 hours

	<u>Forty Hour Basis</u>	<u>Total Time Basis</u> <u>(Assuming 50 hours @ week)</u>
Work-hour Basis	2080	2600
Direct Labor Rate	\$19.23	\$15.38
Contract Cost	\$35,769	\$28,615

It is easy to see the total time company has a competitive advantage in price.

The objective of a cost analysis review is to compute a realistic price. This means the cost estimate should be attainable. Accordingly, we must make a determination the proposed rate is a realistic rate.

EPA does not currently have a specific policy on the treatment or evaluation of uncompensated overtime. However, we do have personnel experienced in making a determination on the acceptability or non-acceptability of such practices. Should uncompensated overtime be proposed please highlight this in the request for cost analysis in order that we can perform an adequate evaluation.

CRAP Publishes Newsletter

The Cost Review and Policy Branch is publishing a monthly newsletter designed to cover current cost and price analysis issues in federal government contracting.

We encourage the readers to submit suggestions for topics for upcoming issues. We also welcome comments and expertise on issues covered in the newsletter.

Except as noted our opinions should not be considered the policy of the Procurement and Contract Management Division.

Washington Cost Advisory Operations

A Look Inside

Washington Cost Advisory Operation is a section under the Cost Review and Policy Branch of PCMD. WCAO is currently staffed by fourteen auditors with an average of twelve years of cost and pricing experience. Our major functions are to conduct cost and price analysis, assist in the contract award and management process and to provide audit and accounting assistance to the various contracting functions.

In the cost and price analysis function we perform cost analysis on contract proposals, coordinate audit services with various government agencies, and perform price analysis on ADP procurements, life cycle costing schedules, and emergency response proposals.

WCAO reviews request-for-proposals, attends discussions and negotiations, participates as team leaders and members on Contractor Purchasing System Reviews, evaluates post award cost data which affects various contracts and also assists in financial monitoring reviews.

On a daily basis we provide advice on various cost and procurement issues. We have also performed special projects for EPA officials as requested.

We maintain a staff of highly trained and experienced personnel. If our services are needed please complete a request for cost analysis where applicable or call Steve Leahy for special assistance.

Personnel Notes

Dennis Buck and his wife Nanci had a baby girl (Amanda Nicole) on March 26. Amanda weighed in at 6 lbs. 14 ozs. and was 21 inches long.

Tammy Thomas and her husband Andre had a baby boy (Antione Charles) on April 11. Antione weighed 4 lbs. 7 ozs. and was 17 3/4 inches long.