



...integrity and commitment



The Price is Right

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Workshop Goal

.....to provide an understanding of what it takes to develop and submit a cost/price proposal that is:

- Compliant
- Competitive
- Fair and Reasonable

to the Government while the company's interest is protected and

The Price is Right



Workshop Outline

- ❑ **Doing Business with the Government**
 - Federal Acquisition Regulations
 - Code of Maryland Regulations
 - Procurement Methodology
- ❑ **Cost/Price Proposal**
 - Elements of Costs
 - Direct/Indirect/Fee/Profit
- ❑ **Truth In Negotiations (TINA)**

Doing Business with the Government

Federal Government



State of Maryland



Prince George's County Government



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Doing Business with the Government

The Federal Government is regulated by the Federal Acquisition Regulations: <https://www.acquisition.gov/far>

State of Maryland and Prince George's County Government are regulated by the Code of Maryland Regulations:

http://www.dsd.state.md.us/comar/subtitle_chapters/21_Chapters.aspx

Doing Business with the Government

❑ What is the Objective ...

Buyer: _____

Seller: _____

OPERATIONAL OBJECTIVES

- _____
- _____
- _____
- _____
- _____
- _____

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Procurement Methodology

The Solicitation is the road map in developing /structuring the technical and cost/price proposal – it sets all the terms and conditions of performance. List the methods in which the Government procures products and services.







Procurement Methods

- _____ – considers price and price related factors only
- _____ – negotiated acquisitions
- _____ – most often used for commercial items

Solicitation / Request For Proposal (RFP)

- Section A Solicitation Contract Form (Standard Form 33)
- Section B Supplies and/or Services and Prices Costs
- Section C Description/Specifications/Work Statement
- Section D Packaging and Marking
- Section E Inspection and Acceptance
- Section F Deliveries or Performance
- Section G Contract Administration Data
- Section H Special Contract Requirements
- Section I Contract Clauses
- Section K List of Attachments
- Section L Representations, Certifications, and Other Statements
- Section M Instructions, Conditions, and Notices to Offeror
Evaluation Factors for Award

BID/NO BID

The Bid/No Bid Decision is the most important and difficult decision of a proposal process.

- Can we do the work?
- Is it achievable – within scope, schedule, price?
- Past Performance – rely on subcontracting?
- Corporate objectives achievable?
- Risks identified and mitigated?
- Incumbent – performance, client's satisfaction?
- Discriminators?



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CONTRACT TYPES

Common Contract Types

Fixed Price Contracts

Firm Fixed-Price (FFP) – one price is negotiated, it is not subject to a price adjustment (Lump sum or fixed unit prices).

The contractor assumes full responsibility, in the form of profit or loss, for all costs under or over the negotiated price.

Cost Reimbursement Contracts

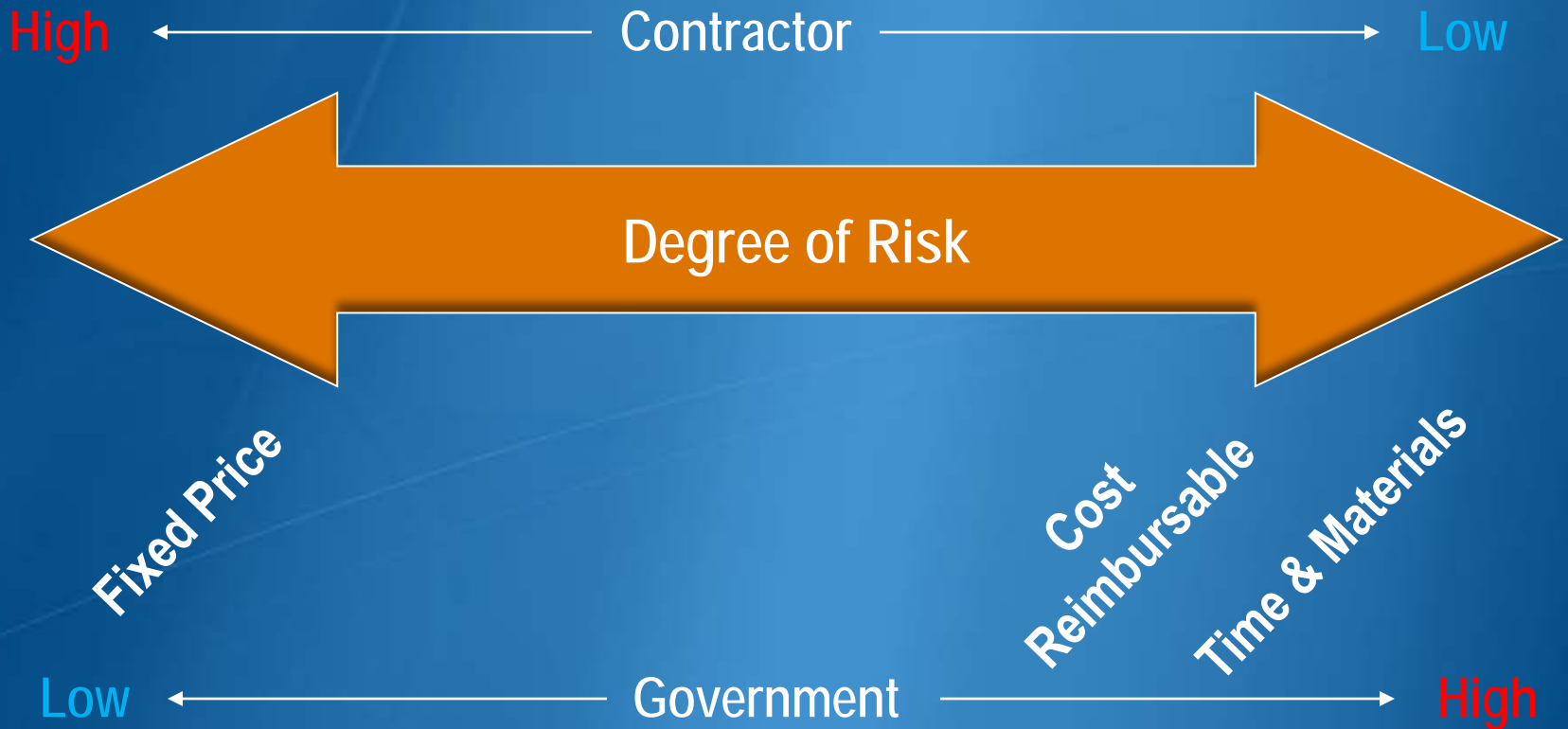
Cost-Plus-Fixed-Fee (CPFF) – provides payment of a fixed fee to the contractor. Once the contract is negotiated, the fee does not vary with actual cost.

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Common Contract Types

Time and Material (T&M) - (Hybrid) is on the basis of direct labor hours (indefinite quantity) at specified fixed hourly rates, and materials provided on a cost-reimbursement basis. Profit included in labor rates, and no fee allowed on materials.

Contract-Type Risk



Strategy Development

Assessing multiple factors that will potentially affect the approach and tactics used to develop the solution.

Factors you must consider and know:

- Commerce,
- Competition
- Customer
- Cost

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Commerce







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Competition







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Customer







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Cost

- _____
- _____
- _____

Are you ready to measure your costs from the contract--
is
The Price Right?

What is Cost/Price Data

All facts, as of the date of price agreement, that prudent buyers and sellers would reasonably expect to significantly affect price negotiations. ... Cost or pricing data are more than historical accounting data; they are all the facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations already incurred.

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Cost/Price Data

Data must be:

- Allowable
- Reasonable
- Allocable
- Accurate
- Verifiable

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A COST IS ALLOWABLE IF IT IS:

- _____
- _____
- _____
- _____
- _____

TO BE CONSIDERED REASONABLE, THE COST MUST BE:

- _____
- _____
- _____
- _____

ALLOCATING A PROPOSED COST

IF:	THE OFFEROR SHOULD ORDINARILY PROPOSE:
The cost would be incurred for work on your contract, and your contract alone	Charging the entire cost to your contract
The cost would benefit both your work and work for other customers	Dividing the cost among those customers, in reasonable proportion to benefits received
The cost is necessary for overall operation of the business	Dividing the cost among all customers of the firm, in proportion to each customer's expected share of the firm's projected business volume

Direct vs. Indirect Costs

Direct Costs

Direct Costs – is a variable cost directly applied to the work in progress (e.g., labor, material, equipment rental, etc.), whereas an indirect cost is a fixed or semi-variable cost spread equitably over all work in progress.

A direct cost is traceable to work in progress, and is specifically identified to a specific contract, project, or production unit (e.g., computer use time to collate and analyze agency input data under a particular study contract).

Direct costs include “other direct costs” (e.g., travel, subcontracts, computer usage, reproduction, etc.), which are identified separately in a contractor’s proposal to facilitate analysis, provide for the application of burden rates, and establish control following contract award.

Indirect Costs

Indirect costs – are the costs associated with being in business, and pertain to the operation of the business as a whole. Costs that cannot practically be assigned directly to the production or sale of a particular product

The indirect cost pool includes such elements as executive salaries and such functions as finance and accounting, contracting and purchasing, personnel administration, legal services, rent, utilities, and the like. They are collected and prorated over all contracts awarded to the contractor as overhead and general and administrative expenses.

Labor Types

Classifications of Direct Labor:

Major Types of Labor:

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Labor Regulations

- Service Contract Act (SCA)
- Davis Bacon Act
- Walsh-Healey Public Contract Act
- Collective Bargaining Agreement (CBA)

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Indirect Rates - Application

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APPLICATION OF INDIRECT RATES TO COSTS

As a general rule, indirect cost rates are applied to direct costs as follows:

- ❑ Fringe benefits or labor burden is applied to total labor costs.
- ❑ Overhead is applied to total direct labor rates, including fringe benefits.
- ❑ Materials handling expense, if applicable, is applied to total material costs.
- ❑ General and administrative expense is applied to total costs.

Cost Allocation Calculations

□ Indirect Cost Rates

Indirect cost rate =

indirect cost pool ÷ indirect allocation base

$$\frac{\text{Indirect Cost Pool}}{\text{Base}} = \text{Rate}$$

Cost Allocation (cont'd)

□ Indirect Cost Pools:

A logical grouping of indirect costs with a similar relationship to the cost objective

□ Indirect Cost Allocation Bases

Some measure of direct contractor effort that can be used to allocate pool costs on the basis of benefits accrued by the several cost objectives

POOL...

What are some examples:

- _____
- _____
- _____

BASE

What are some examples:

- _____
- _____
- _____

Sample – Overhead Cost Template



TYPES OF RISKS

Types of Risk

There are a few ways to classify risk:

Known Causes:

- _____
- _____
- _____
- _____
- _____

Unknown causes: _____

Unknown causes of unknown likelihood:

Types of Risk

Known Causes:

Schedule

- _____
- _____
- _____

Types of Risk

- Technical



- _____



- _____



- _____



- _____

Types of Risk

Cost

Types of Risk -AJ's Side Deck

- Programmatic

- _____
- _____
- _____

- Unknown causes – _____

- Unknown causes of unknown likelihood - _____

FEE/PROFIT

Fee/Profit percentage is based upon the necessary return on investment, reward for management expertise, risk return, and recoupment of the cost of the working capital.

Profit:

Government pricing: Profit is the difference between proposed costs and agreed upon price in fixed price contracts

Commercially: Profit is excess of revenue to expenses

Fee:

On cost-plus contracts: fee is a fixed amount added to the accepted cost at contract completion

COST/PRICE DIAGRAM

Direct Labor	Direct Materials	Overhead	General and Administrative	Profit
Direct Costs		Indirect Costs		Profit
Total Price				

Cost /Price Volume

The Cost/Price Volume presents the detailed, estimated costs of the proposed work, cost substantiation, contract terms and conditions, company financial data, fee or profit criteria, and any other costing information requested in the Solicitation.

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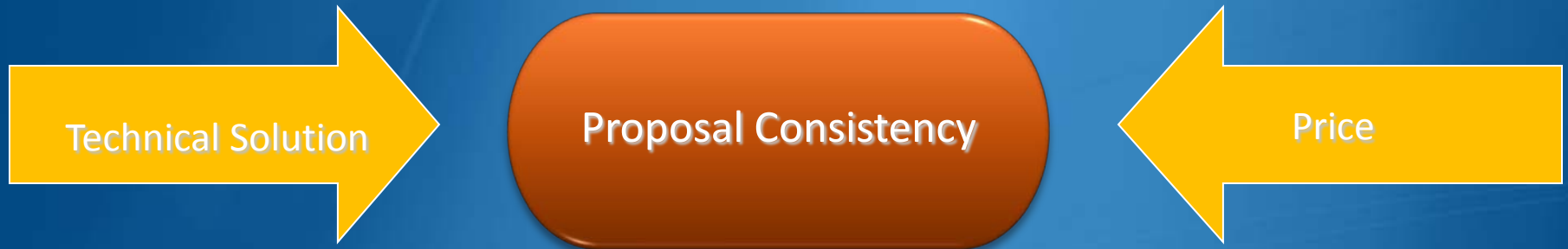
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Cost /Price Volume (continued)

All commitments made in the Technical and Management Volumes that involve cost, must be consistently addressed in

Technical Solution = PRICE





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Truth In Negotiations Act (TNA)

Truth In Negotiations Act (TINA)

The Truth-in-Negotiations Act (PL 87-653; 10 U.S.C. §2306(a)), often referred to as TINA, was enacted in 1962 to place the government on equal footing in negotiating contract prices with commercial organizations.

Prior to 1962, businesses submitting proposals/bids to the government were not held to any substantial requirement for disclosing all relevant cost or pricing information to the government prior to conclusion of negotiations.

TINA Requirements

Submission of Cost or Pricing Data before contract or subcontract award.

Submission of Cost or Pricing Data before the pricing of a change or modification to a contract or subcontract.

Execution of a Certificate of Current Cost or Pricing Data.

Proprietary Data – Do Not Duplicate

What is Defective Pricing?

- ❑ Defective pricing occurs when a contractor does not submit or disclose to the Government cost or pricing data that is accurate, complete, and current prior to reaching a price agreement.
- ❑ Defective pricing is usually discovered during post-award audits during which records and data are examined and analyzed.
- ❑ The objective of a post-award audit is to determine if the negotiated contract price was increased by a significant amount because the contractor did not submit or disclose accurate, complete, and current cost or pricing data.

How to Avoid Defective Pricing

TRAINING It is the first line of defense to prevent findings of defective pricing.

ACRONYMS/WEBSITES LISTING

AVAILABLE ONLINE

Questions?

