Price and Cost Realism in Government Contracting

This workshop features an in-depth explanation of how price and cost analysis techniques apply and impact the preparation, pricing, and evaluation of contract cost proposals. It starts with a review and update of the rules, requirements, definitions, and available guidance. Basic terms are covered, such as “basis of estimate”, “independent cost estimate”, and “cost or pricing data”. Cost estimating and estimating techniques build on our basic understanding of pricing and costs. In linear sequence, cost proposal analysis techniques continue the explanation. The workshop culminates with coverage of the increasing significance of price and cost challenges to contract awards and what you can do to manage and minimize risk in source selection through an understanding of price and cost analysis.

As defined in the CFR, the FAR, case decisions, and other sources:

- **Price Analysis** is the process of examining and evaluating a proposal price without evaluating its separate cost elements and proposed profit.
- **Price Analysis** should be used to verify that the overall price offered is fair and reasonable.
- **Price Analysis** shall be used when cost or pricing data are not required.
- A **Price Reasonableness Analysis** is intended to prevent the government from paying too much for contract work.
- The purpose of a **Price Realism Analysis** has been described as a verification that the offeror’s price is not overly optimistic and impractically low.
- A **Price Realism Analysis** examines the performance risk of proposals in a fixed-price contract procurement, with particular attention to the risk of low-priced proposals, and may include cost realism analysis.
- A **Price Realism Analysis** will be applied in order to measure the offerors’ understanding of the requirements and/or to assess the risk inherent in an offeror’s proposal.
- A **Price Realism Analysis** is intended to determine if the contractor is proposing a price so low that the performance of the contract will be at risk.
- **Cost Realism Analysis** is the process of independently reviewing and evaluating specific elements of each offeror’s proposed cost estimate to determine whether the estimated proposal cost elements are realistic for the work to be performed; reflect a clear understanding of the requirements; and are consistent with the unique methods of performance and materials described in the technical proposal.
- **Cost Realism Analysis** may also be used on competitive fixed-price incentive contracts or, in exceptional cases, on other competitive fixed-price type contracts when new requirements may not be fully understood by competing offerors, there are quality concerns, or past experience indicates that contractors proposed costs have resulted in quality or service shortfalls. Results of the analysis may be used in performance risk assessments and responsibility determinations.
However, proposals shall be evaluated using the criteria in the solicitation, and the offered prices shall not be adjusted as a result of the analysis.

- Cost Realism Analysis shall be performed on cost-reimbursement contracts to determine the probable cost of performance for each offeror.
- Cost Reasonableness and Cost Realism are distinguishable, but both of these analytical frameworks critically examine the cost elements of a price proposal.
- Cost Analysis shall be used to evaluate the reasonableness of individual cost elements when cost or pricing data are required.
- Cost Analysis may also be used to evaluate information other than cost or pricing data to determine Cost Reasonableness or Cost Realism.
- The objective of Proposal Analysis is to ensure that the final agreed-to price is fair and reasonable.

These guidelines will be examined in this workshop.

**Cost Estimating and Pricing**

1. Cost Estimating Environment
   a. Pricing Policies
   b. Regulations
   c. Guidance
   d. Organization, Cost Proposal Analysis
   e. Personnel, Cost Proposal Analysis
   f. Manufacturing vs. Service Contracts

2. Estimate Development Criteria
   a. Cost-Reimbursement Contracts
   b. Fixed-Price Contracts

3. Cost Estimating Function
   a. Optimum Estimating Structure
   b. Authority/Responsibility
   c. All Relevant Information

4. Direct Material Costs
   a. Materials
   b. Parts
   c. Sub-Assemblies
   d. Components
   e. How Purchased
   f. Commercial Items
   g. Transfer Prices
   h. Subcontract Cost Analysis
   i. Documentation
   j. Materials Package

5. Direct Labor Costs
   a. Manufacturing
   b. Engineering
c. Services

d. Labor Hour Estimates

e. Learning Curves

f. Standards

g. Relationships

h. Estimating Techniques

i. Scheduling

j. Forward Pricing Labor Rates

6. Overhead

   a. Overhead Pools

   b. Allocation Bases

   c. Establishing Rates

7. Facilities Capital Cost of Money

8. Government Analysis of Profit

9. Contingency Pricing

10. IR&D B&P

   a. Tooling

   b. Equipment

11. Estimating Check List


**Cost Proposal Analysis/Price and Cost Realism**

1. Use of Data

   a. Historical

   b. Basis of Estimate

2. Analysis Techniques & Templates

   a. Cost Estimating

   b. Standard Evaluation Techniques

3. Analysis of Direct Costs

   a. Labor Costs

   b. Material Costs

4. Analysis of Indirect Costs

   a. Composition of Indirect Costs

   b. Evaluation of Indirect Costs

5. Profit Analysis

   a. Profit Policies

   b. Profit Evaluation

6. Risk Assessment

   a. Cost Realism Analysis

   b. Most Probable Cost Analysis

   c. Adjustment

   d. Proposal Risk/Performance Risk

7. Negotiations

   a. Trade-off Analysis
b. Documentation

8. Summary and Analysis
   a. Price Realism
   b. Cost Realism

9. Challenges and Protests
   a. Price Realism
   b. Cost Realism

10. Case Studies/Adjournment

**Lead Workshop Instructor**

**Mark K. Roberts** is a Partner at Argy, Wiltse & Robinson, P.C. Mark has extensive experience in government contracting. He has worked with a government contractor, a law firm, and a public accounting firm in the aerospace, defense, construction and healthcare industries. He assists companies with financial and accounting issues related to pricing, costing, and the administration of government contracts. Mark reviews and evaluates contractor accounting, estimating, and procurement systems for compliance with prescribed regulations and consults with companies on the Cost Accounting Standards (CAS), disclosure statements, cost accounting practice changes, and claims. Mark assists legal counsel in government contract litigation and has testified as an expert. He holds a Bachelor of Arts degree in Economics from Harvard University.

Other instructors with Argy, Wiltse & Robinson, P.C. will facilitate this program as well.