

Partnering for
Business Acceleration

2014 Supplier Conference/Workshop

LOCKHEED MARTIN



Welcome and Introductions

Partnering for Business Acceleration

*A Joint Telephonics and Lockheed Martin Supplier
Conference/Workshop
on the
Submission of Adequate Cost Proposals*

Objectives

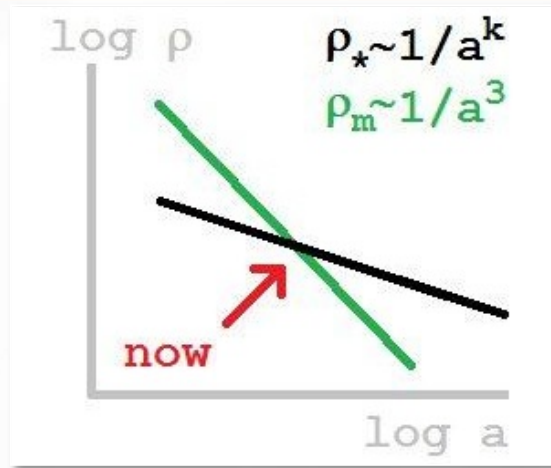
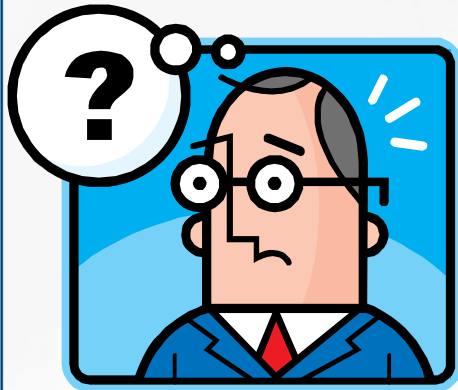
This resource document covers the following:

- Ensure the submission of supplier cost proposals that pass the adequacy test of Telephonics, its Prime Customers and the Government supporting the DCAA Mission Statement
- Standardize the Supplier Cost Proposal submission process
- Remove any barriers to the timely completion of cost analysis by Telephonics
- Achieve Business Acceleration

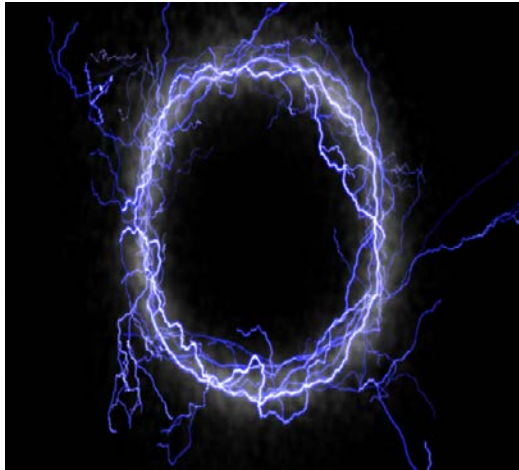
Agenda

Time	Topic
8:00 - 8:15 am	Welcome and Introducitons
8:15 - 8:45 am	Overview of the Proposal Process
8:45 - 9:15 am	Roles and Responsibilities
9:15 - 9:30 am	Break
9:30 - 10:30 am	Proposal Adequacy Checklist
10:30 - 11:00 am	General Requirements - Adequate Proposal
11:00 - 12:00 pm	Cost Element Requirements: Material and Subcontracts Direct Labor Costs
12:00 - 12:45 pm	Lunch
12:45 - 2:00 pm	Direct Rates Indirect Costs Other Direct Costs Royalties and Cost of Money
2:00 - 2:15 pm	Break
2:15 - 3:45 pm	Workshop and Discussion
3:45 - 4:00 pm	Wrap Up

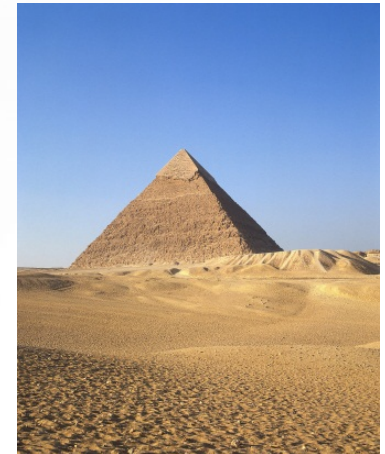
Overview of the Proposal Process



Today's Government Contracting Environment



$$E = MC^2$$



The DoD Oversight Wars

Congress/GAO



DCMA

DoDIG

DCAA

War Began: 2008/Cease Fire: TBD

DCAA Mission Statement

“The DCAA, while serving the public interest as its primary customer, shall perform all necessary contract audits for the Department of Defense and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services shall be provided in connection with negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices.”

From an Auditors Perspective.....

We must understand the nature and purpose of proposals to assure proposal adequacy. As you navigate through the sections that follow, imagine yourself in the role of Government auditor (e.g., DCMA, DCAA) as you consider the necessity and effectiveness of current, accurate and complete certified cost or pricing data.

This section contains the background information needed to understand how the Government uses proposals and why so much effort is spent to ensure they are adequate.

Potential Bottlenecks to Contract Award

- ◆ Proposals deemed inadequate
- ◆ Supplier resistant on the submission of Certified Cost or Pricing Data
- ◆ Requested supplier exemptions to the submission of Certified Cost or Pricing Data
- ◆ Supplier withhold of rate and other critical cost information resulting in a request for Government assist audit

Without adequate Cost Data, the government will un-support the costs, delaying the award.

Roles and Responsibilities

PCO and ACO Role in Cost Analysis

FAR 15.404-1(a)(3) requires the Government to perform a cost analysis to evaluate the reasonableness of individual cost elements included in proposals that require submission of certified cost or pricing data. Cost analysis procedures generally include the following activities by either the Procuring Contracting Officer (PCO) or the Administrative Contracting Officer (ACO):

- ◆ Performing a technical appraisal of the estimated labor, material, tooling, and facilities requirements and of the reasonableness of scrap and spoilage factors
- ◆ Comparing proposed costs to:
 - Previous cost estimates from the offeror or from other offerors for the same or similar items
 - Other cost estimates received in response to the Government's request
 - Independent Government cost estimates by technical personnel
- ◆ **Determining if the proposal is adequate to provide a sound basis for pricing decisions and contract award**

Customer/Buyer Responsibilities

The Customer/Buyer is the decision maker in the procurement process. For proposals requiring the Offeror to furnish certified cost or pricing data, the Customer/Buyer must determine:

- ◆ If the certified cost or pricing data the Offeror submits is acceptable as a basis for negotiating a fair and reasonable price
- ◆ Whether the proposal complies with the requirements of **FAR 15.4**; in particular **FAR 15.408, Table 15-2**
- ◆ Provide the compliant proposal to the Cost Analysis group, along with the completed Proposal Adequacy Checklist (**F9112**)

Suppliers Responsibilities

The Supplier is solely responsible for preparing and submitting an adequate proposal and supporting its proposed costs. When the proposal is submitted, it should be complete and ready for audit.

FAR 15.403-4(b) further emphasizes this responsibility by requiring Suppliers to certify that, as of the date of price agreement, the certified cost or pricing data submitted in support of its proposals are current, accurate and complete.

What is a Proposal?

FAR 31.001 defines a proposal as *any offer or other submission used as a basis for pricing a contract, contract modification, or termination settlement or for securing payments thereunder*. This presentation focuses only on adequacy requirements for proposals that **require Suppliers to submit certified cost or pricing data**.

Under certain conditions, certified cost or pricing data are not required. Those exceptions are specified later in this presentation however these exceptions can cause delays to contract award.

Multiple Quantity Pricing

- ◆ If Telephonics RFP requests pricing on multiple discrete quantities, supplier shall submit a cost breakdown for each discrete quantity exceeding the current FAR threshold.
- ◆ Telephonics will require the following information for quantities exceeding the current FAR threshold:
 - A quote and certified cost breakdown for each price point
 - Methodology employed in developing each cost element
- ◆ For all intermediate quantities, the Offeror shall develop a Pricing Table and methodology to arrive at unit prices that fall in-between the discrete quantities requested

Future Award(s)

- ◆ Option Pricing – based on reasonable projections of occurrence per Customer requirements
 - Supplier shall provide all rationale and documentation supporting their proposed option prices - **Pricing Table**
 - Telephonics shall evaluate price reasonableness as part of the base award/current cost analysis and apply price analysis to adjust for out-year escalation per Global Insights Index and quantity adjustments
- ◆ Long Term Agreement (LTA) – prepare to support future proposal efforts
 - A negotiated LTA where cost analysis was performed requires testing for price reasonableness when the Agreement has aged more than one calendar year
 - Upon Telephonics request, Supplier shall provide updated certified cost data sample to demonstrate current price reasonableness - Cost breakdown, BOM, selected price support, actual hours, pooled wage calculation, indirect rate calculations

Certified Cost or Pricing Data

FAR 2.101 defines “cost or pricing data” as **all facts that, as of the date of price agreement** or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price, **prudent buyers and sellers would reasonably expect to affect price negotiations significantly.**

- ◆ Certified Cost or Pricing Data are factual, not judgmental, and are verifiable
- ◆ Requirements for Certified Cost or Pricing Data and **FAR 15.4** are invoked as Clauses contained in the Solicitation or RFP as described in **FAR 52.**
- ◆ The requirement for certified cost or pricing data in cost proposals subject to the Truth in Negotiations Act (TINA)
- ◆ The threshold for obtaining certified cost or pricing data is currently \$700,000. **FAR 15.403-4(a)** requires certified cost or pricing data if a pricing action exceeds the threshold

Certified Cost or Pricing Data (cont'd)

Certified cost or pricing data also includes such factors as:

- ◆ Vendor quotations
- ◆ Nonrecurring costs
- ◆ Changes in production methods and in production or purchasing volume
- ◆ Data supporting projections of business prospects and objectives and related operations costs
- ◆ Unit-cost trends such as those associated with labor efficiency
- ◆ Make-or-buy decisions
- ◆ Estimated resources to attain business goals
- ◆ Information on management decisions that could have a significant bearing on costs

Certified Cost or Pricing Data Submission Criteria

FAR 15.403-4(a) requires certified cost or pricing data if a pricing action exceeds the threshold, unless one of the exception criteria (described later in this lesson) apply, before:

- ◆ Awarding any negotiated contract (except undefinitized actions such as letter contracts)
- ◆ Awarding a subcontract at any tier, if the Offeror and each higher-tier subcontractor have been required to furnish certified cost or pricing data
- ◆ Modifying any sealed bid or negotiated contract (whether or not certified cost or pricing data were initially required) or any subcontract covered in the second bullet above. Price adjustment amounts should consider both increases and decreases. (For example, a net \$200,000 modification resulting from a \$500,000 reduction and a \$300,000 increase is a price adjustment over \$700,000.) This requirement does not apply when the same modification includes unrelated and separately priced changes for administrative convenience that would not otherwise require certified cost or pricing data.




Exception Criteria

FAR 15.403-1(b) exceptions to submitting certified cost or pricing data:

- ◆ If the price is based on adequate competition with award to best value or lowest priced supplier
- ◆ In the event of a dual source and the pricing is within the competitive range
- ◆ If the price is set by law or regulation
- ◆ Acquisition of a commercial item as defined under the Commercial Item Handbook Version 2.0
- ◆ When the head of the contracting activity grants a waiver
- ◆ For modifications to contracts or subcontracts for commercial items in accordance with Commercial Item handbook ver 2.0

Commercial Item Exception

Current Requirements:

- ◆ **FAR 2.101** Definition of Commercial Item –
 - Any item, customarily used by the general public or by non-governmental entities for purposes other than governmental purposes
- ◆ U.S. DoD Commercial Item Handbook (Version 2.0)  Commercial Handbook
- ◆ Telephonics Commercial Item Checklist  Commercial Item Checklist
- ◆ Telephonics Supplier Commercial Justification  Commercial Justification

Commercial Item Exception

◆ Audit Findings

- DCAA has cited defense contractors for failure to obtain complete information documenting not only the sales price, quantity sold and date of sales, but the identification of the Customers sold to, the commercial use of the parts, and the terms under which it was sold

◆ Complication

- Suppliers redact key data to protect sensitive information

◆ Impact

- Potential to affect program execution and the Estimating System rating since commerciality is an exception from providing Certified Cost or Pricing Data

Commercial Item Determination

- ◆ The Commercial Item Determination should:
 - Address All Relevant Factors in the Determination
 - Stand on Its Own Merits
 - Provide all Computations Supporting Evaluations
 - Contain all Relevant Supporting Documents
- ◆ The Commercial Item Determination should not:
 - Contain Irrelevant Information
 - Make Unsupported Claims
 - Be Missing Major Documentation
 - Be a 'Trust Me' Independent Determination without Back-up Documentation

Commercial Item Exception (cont'd)

Today's Environment:

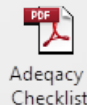
According to Shay D. Assad, Director of Defense Pricing, updated guidelines are under development to pay “fair prices” (NDIA article, Pentagon Will Demand ‘Fair Prices’ from Commercial Vendors)

- ◆ 2014 NDAA mandated clear guidance on commercial items
- ◆ Objective: “... better deal for the taxpayers.”
- ◆ “If you have a market based price that can be substantiated through sales in the commercial marketplace, we pay what the market pays”
 - Purchase orders are relatively recent for comparable quantities
- ◆ “Government-based pricing is not sufficient proof that the price is fair”
- ◆ **Provide other rationale, not government sales that substantiates market-based and justified; “other than cost or pricing data”**

Introduction to Proposal Adequacy “Checklist”

Proposal Adequacy Checklist (F9112)

The Government/Customer expects Telephonics and its Global Supply Chain to submit proposals that are compliant with the FAR and DFARS requirements for adequacy and can be relied upon as a basis for negotiating fair and reasonable prices. To help ensure that Telephonics receives an adequate proposal from each Offeror, all Offerors are required to submit a Proposal Adequacy Checklist as part of their proposal submittal when specified as a requirement of the solicitation. This Proposal Checklist is an essential aid in assisting the Offeror in assuring that all adequacy requirements have been addressed during the proposal preparation phase and in assisting Telephonics in its adequacy verification.



DFARS Requirement for a Proposal Adequacy Checklist at the Prime Contractor Level

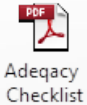
On 3/28/2013 a final rule was issued to add **DFARS 215.408(6)** which prescribed that when certified cost or pricing data was required, the clause at **252.215-7009** must be included in the contract requiring the submittal of a Proposal Adequacy Checklist when contracting with the Government. ***It also recommends flowing this requirement down to the Contractor's supply chain, which Telephonics has chosen to do.***

The Proposal Adequacy Checklist – Basic Rules and Utilization

The Proposal Compliance Checklist should be used throughout the proposal preparation task to ensure that all requirements have been met. It should be considered at the earliest stage of proposal planning and consideration for completion of each item should be addressed. As discussed in the section below, the Offeror will be required to indicate where in the proposal compliancy can be verified. ***Capturing that information during the proposal preparation is much easier than trying to locate the information once the proposal is complete.***

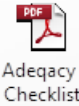
***Supplier shall respond Yes, No or NA to EVERY question.
If the answer is No or NA, then provide explanation.***

Common Omissions and Findings



- ◆ Proposals not containing an index of certified cost, page numbers or pricing data or other information included or referenced in the proposal, submitted actually or by specific identification, utilized in preparing the proposal.
 - This index should identify each separate item, identify what it pertains to, whether or not it is actually in the proposal, and its location in the proposal or other location at the Supplier's facility where it can be found, as applicable. This is not the proposal Table of Contents – **CHECKLIST QUESTION #3**
- ◆ Inadequate Bases of Estimate that do not tell the story – **CHECKLIST QUESTION #5 & #6**
- ◆ Bills of Material that do not contain the appropriate requested information
- ◆ No consolidated summary of material costs, typically called a Consolidated Bill of Material (CBOM) - **CHECKLIST QUESTION #12**
- ◆ First page (Pricing Proposal Cover Sheet) does not contain all the required information, in particular: - **CHECKLIST QUESTION #1**
 - No signature
 - Values do not match the Summary Cost Elemental Breakdown or total potential contractual obligation
 - Utilized Pricing Proposal Cover Sheet with outdated certification statement

Common Omissions and Findings (cont'd)



- ◆ Pricing templates are either missing or do not add to the total proposed value - CHECKLIST QUESTION #26
- ◆ Pricing summaries required by Section III of FAR 15.408, Table 15-2 are missing - CHECKLIST QUESTION #26
- ◆ Cost breakdowns that do not provide time-phasing of hours, rates and factors, etc. by category - CHECKLIST QUESTION #19 - #21
- ◆ Termination Liability and Expenditure Forecasts that do not make sense based on the time-phasing and the overall period of performance and/or do not match the proposal total
- ◆ Proposal location references, needed to facilitate review and required by the proposal checklist, not provided
- ◆ “No” and “N/A” responses on proposal checklist without corresponding explanations
- ◆ Inadequate or missing sub-tier Cost Analyses - CHECKLIST QUESTION #13 - #16
- ◆ **LACK OF TRACEABILITY BETWEEN OFFEROR’S PROPOSAL PRICING AND THE ACCOMPANYING SUPPORTING INFORMATION**

General Requirements - Adequate Proposal

What Constitutes Submission?

FAR 15.408, Table 15-2 states certified cost or pricing data can be submitted either actually or by specific identification. Accordingly, the Supplier does not have to physically submit all of the supporting documentation required, but can specifically identify the supporting documentation and have it available for audit. However, any supporting data not provided with the proposal should be ready and waiting for review. The Supplier should not need to create this information during fact find.

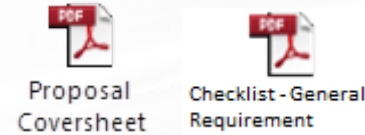
There is a clear distinction between submitting certified cost or pricing data and merely making available books, records, and other documents without identification. The requirement for submission of certified cost or pricing data is met when all accurate certified cost or pricing data reasonably available to the Supplier have been submitted, either actually or by specific identification, to Telephonics, the Contracting Officer or an authorized representative. As later data comes into the Supplier's possession, it should be submitted promptly to Telephonics and/or the Contracting Officer in a manner that clearly shows how the data related to the Supplier's price proposal.

The requirement for the submission of certified cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable. See **FAR 15.408, Table 15-2, Note 1**.

General Requirements

- ◆ Telephonics provides a proposal coversheet with its RFP containing all **FAR 15.408, Table 15-2** requirements which shall be completed and executed by the Offeror and provided as the first page of the Offeror's proposal submission.

- ◆ Review of the Proposal Coversheet



Summary Cost-Element Breakdowns

FAR 15.408, Table 15-2 requires Offerors to segregate the proposal by line item with sufficient detail to permit cost analysis. Offerors must also attach cost element breakdowns for each proposed line item and furnish supporting breakdowns for each cost element consistent with its cost accounting system. The Offeror must provide summary total amounts for each cost element covering all line items when it proposes more than one contract line item. Following is an example of the information required.

Access to Offeror's Cost Data

- ◆ Although Telephonics has the responsibility to evaluate its suppliers, the DCMA or DCAA may be requested to perform this function as an assist audit when:
 - The contractor-subcontractor business relationship is not conducive to independence and objectivity
 - The proposed subcontract cost represents a substantial portion of the total contract cost
 - The customer is denied access to the proposed subcontractor's records
- ◆ In the case where the Offeror has denied Telephonics access to their books and records, the Offeror must provide written denial specific all elements of cost the Offeror deems proprietary.
 - Telephonics will request the assist audit through the Primes ACO and must include the supplier's denial letter

Denying Telephonics access to all Offeror's Cost Data risks delay of award and Government un-supporting all or portions of your proposal

Keeping the Proposal Current

- ◆ The Offeror's responsibility for an adequate proposal does not end when the proposal is submitted. **FAR 15.408, Table 15-2** requires the Offeror to promptly submit any later information impacting the proposal as it comes into the Offeror's possession.
- ◆ The Offeror must submit the data in a manner that clearly shows how the information relates to the price proposal. In addition, the Offeror must annotate any future additions and/or revisions, up to the date of agreement on price, on a supplemental index.

Cost Element Requirements

Direct Material

FAR 15.408, Table 15-2 requires the Subcontractor to provide a consolidated priced summary of individual material quantities (typically referred to as a Consolidated Bill of Material, or CBOM) in the contract being proposed. The proposal should also include Bills of Material (BOMs) at the line item level as well. The CBOM and line item BOMs should include raw materials, parts, components, assemblies, subcontracts and services to be produced or performed by others.

However templates in accordance with **FAR 15.403-5** will be provided to standardize the process across the supply chain and accelerate the timeline to award.

Basis for Estimating Material Items

- ◆ The basis for a material item estimate may be a supplier quote, purchase history with or without escalation, weighted average cost, etc. Different material items and/or categories may be costed by different methods.
- ◆ The BOM or summary of material cost, included in the cost breakdown, provides traceability to the BOE
- ◆ The material BOE containing task orders or CLINs, quantities, and part numbers, etc., supports the cost breakdown and is traceable to the BOM; (2) a consolidated BOM maximizes price reasonability

Bill of Material Elements

A Summary CBOM or line item BOM must identify elements such as:



Adequacy
Checklist

- ◆ Part number
- ◆ Nomenclature
- ◆ Material type
- ◆ Non-recurring costs
- ◆ Quantity required
- ◆ Unit of measure
- ◆ Basis of cost, for example:
 - A = Moving average inventory cost
 - Q = Quote
 - E = Engineering estimate
 - C = Catalog pricing
- ◆ Unit cost and extended cost
- ◆ Escalation and/or decrement

Consolidated BOM
BOM

Sub-tier Subcontracts

- ◆ The requirements placed on Subcontractors also apply to Sub-tier subcontractors. When Telephonics requires the Subcontractor to submit certified cost or pricing data, its sub-tier Subcontractors must also submit certified cost or pricing data to Subcontractor (or next-higher tier subcontractor), as appropriate and for analysis. The Supplier is responsible for the following:
 - Conducting a price analysis and a cost analysis for sub-tier proposals
 - Including the results of sub-tier proposal reviews and evaluations as part of the Supplier's certified cost or pricing data submittal
- ◆ The amount in the Supplier's proposal should always reflect any negotiation reductions, decrements or other adjustments anticipated for the Supplier's sub-tier suppliers.
- ◆ The exceptions to the certified cost or pricing data requirements for Subcontractors also apply to Subcontractors sub-tier suppliers. Certified cost or pricing data submittal requirements for Subcontractors sub-tier suppliers are described specifically in **FAR Part 15.404-3(c)(1)**.

Sub-tier Subcontractor Cost Analysis

The requirements for sub-tier subcontracts exceeding the certified cost or pricing data threshold (\$700,000), requiring Cost Analysis, are as follows:

- ◆ Include in proposal the basis for establishing the reasonableness of the price (Cost/Price Analysis) In the event that the subcontractor's cost analyses on their sub-tier suppliers exceeding the certified cost or pricing data threshold are not available at the time of proposal submittal, the subcontractor is required to submit a matrix identifying:
 - Date for receipt of sub-tier Subcontractor proposals
 - Date for completion of fact finding for the purposes of Cost Analysis
 - Date for submission of the completed Price Analysis and Cost Analysis documentation and supporting data.
- ◆ Support required is to be the same as for all higher tier Offerors where certified cost or pricing data is required.

Direct Labor Costs

General Requirements



Adequacy
Checklist

Offerors must provide a time-phased breakdown of labor hours, rates, and cost by appropriate labor category, and furnish the basis for its ***estimates for the entire period of performance***. FAR 15.408, Table 15-2 requires the Offeror to identify labor costs as they are projected to be incurred. The breakout by category must be consistent with the method of cost accounting.

Basis for Labor Hour Estimates

FAR 15.408, Table 15-2 also requires the Offeror to provide the basis for estimates of labor costs. For instance, the Offeror might indicate that:

- ◆ Estimated manufacturing hours (all categories) are based on historical hours adjusted for projected learning
- ◆ Quality and engineering hours are analogous estimates based on the expected level of effort during the anticipated period of contract performance, based on actual cost of similar effort

Basis for Labor Hour Estimates (cont'd)

Typically, Labor BOEs would contain, but not be limited to, the following information:

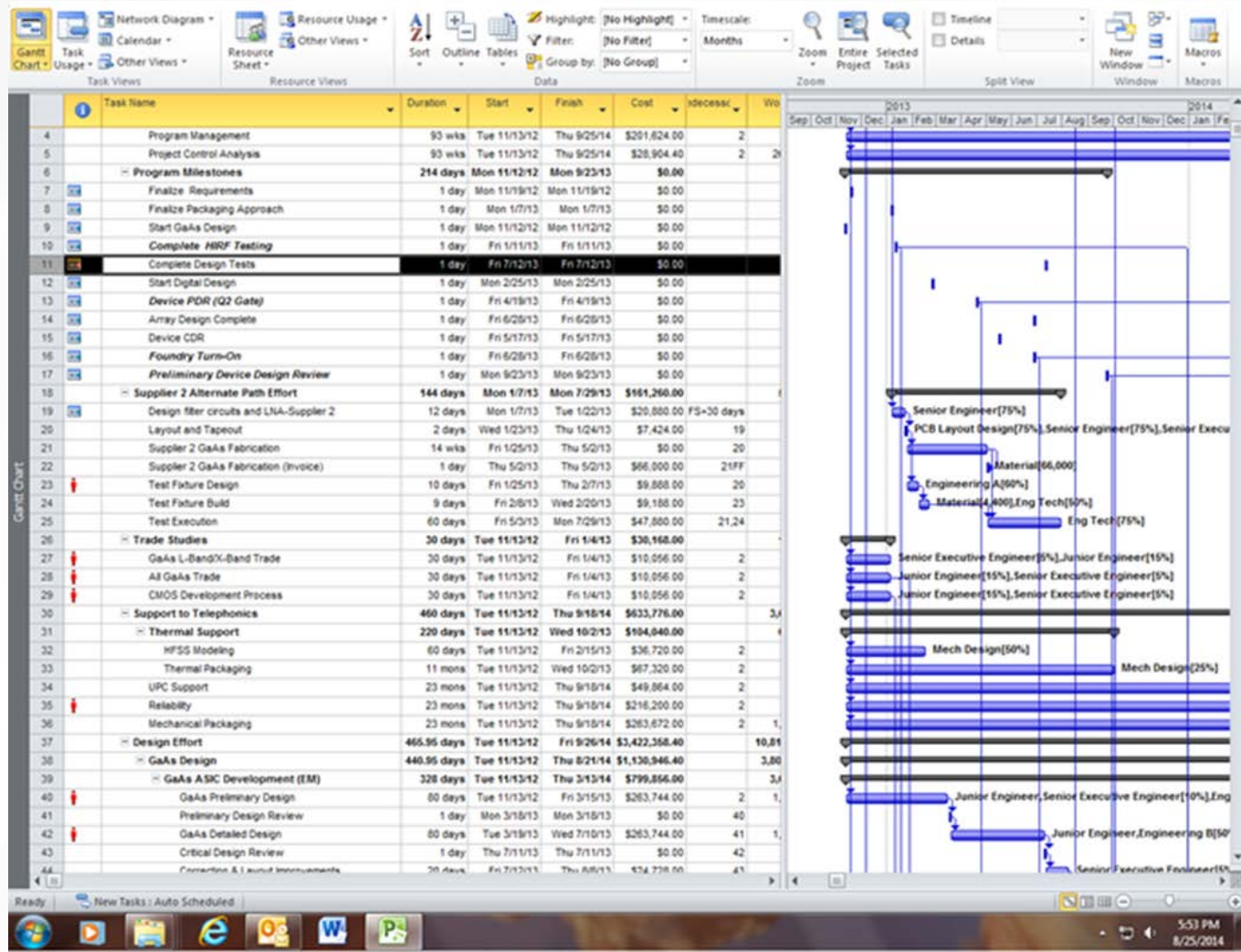
- ◆ Work Breakdown Structure
- ◆ Period of Performance showing start and stop dates
- ◆ Labor Categories being priced, to include task descriptions
- ◆ Time Phased hours
- ◆ Complete rationale
- ◆ Name of person who owns that BOE
- ◆ Identification of any historical data utilized in the estimate
- ◆ Cost estimating relationships forming all or part of the estimate
- ◆ If man-months are used, must identify hours per man-month

Supporting Data Required of Suppliers for Technical Evaluations of Proposals

- ◆ Labor Hours are required supplier documentation to support a Technical Evaluation of supplier's proposals. The following list details the required data to be submitted.
- ◆ For efforts with Non-Recurring Costs:
 - A level 2 schedule with a breakdown by task required to achieve the effort being funded by the NRE
 - ◆ The tasks need to be descriptive enough to identify the work that is involved in accomplishing each task
 - ◆ The schedule shall include the assignments in hours of all direct labor that is covered by the NRE charges. Where a task is covered by material, indirect labor, or other direct costs, it should be identified.
 - ◆ The labor hours need to be identified by Job Title and/or Classification and level. The title or classification must clearly identify the technical discipline or department being assigned to the effort.
- ◆ For efforts with Recurring Costs:
 - A level 2 schedule with a breakdown by task required to manufacture being funded by the Recurring costs
 - ◆ The tasks need to be descriptive enough to identify the work that is involved in accomplishing each task.
 - ◆ The schedule shall include the assignments in hours of all direct labor that is covered by the Recurring charges. Where a task is covered by material, indirect labor, or other direct costs, it should be identified.
 - ◆ The labor hours need to be identified by Job Title and/or Classification and level. The title or classification must clearly identify the technical discipline or department being assigned to the effort.
 - ◆ Separate labor breakdowns need to be supplied to support different pricing quantities in the proposal
- ◆ A fully resourced Microsoft Project schedule is preferred submission format; however an Excel spreadsheet is acceptable provided it adequately contains all of the data described above

Supporting Data Required of Suppliers for Technical Evaluations of Proposals

Example of Sufficiently Detailed Schedule



Supporting Data Required of Suppliers for Technical Evaluations of Proposals

Example of sufficiently detailed resource view of the schedule

Resource Name	Group	Code	Standard Rate	Cost	Work	Details	2nd Quarter								
							Dec	1st Quarter Jan	Feb	Mar	Apr	May	Jun		
Unassigned			\$0.00/hr	\$0.00	00 hrs	Cost									\$0
Engineering B	EE HW	E2B	\$235.00/hr	\$1,254,900.00	5,340 hrs	Cost	\$23,030.00	\$10,340.00	\$54,520.00	\$75,670.00	\$34,780.00	\$9,870.00	\$51,700.00		
Eng Tech	Eng Tech	TE	\$133.00/hr	\$52,660.00	396 hrs	Cost									
Senior Engineer	EE HW	E2A	\$290.00/hr	\$24,300.00	84 hrs	Cost									
Engineering A	EE HW	E3A	\$206.00/hr	\$431,776.00	2,096 hrs	Cost		\$6,592.00	\$1,648.00	\$23,072.00	\$59,328.00	\$1,648.00			
Lead Engineer (EE)	EE HW	E2B	\$331.00/hr	\$51,108.00	162 hrs	Cost									\$6,600.00
Lead Engineer (ME)	ME	E2B	\$334.00/hr	\$176,352.00	528 hrs	Cost	\$4,542.40	\$5,878.40	\$5,344.00	\$5,611.20	\$5,878.40	\$5,611.20	\$12,291.00		
Prog Mgr	Prog Mgr	E2B	\$271.00/hr	\$251,488.00	928 hrs	Cost	\$9,214.00	\$11,924.00	\$10,840.00	\$11,382.00	\$11,924.00	\$11,382.00	\$11,382.00		
PCB Layout Design	PCB Layout Design	D	\$153.00/hr	\$14,076.00	92 hrs	Cost									
Mech Design	Mech Design	D	\$153.00/hr	\$244,800.00	1,600 hrs	Cost	\$5,202.00	\$6,732.00	\$6,120.00	\$6,426.00	\$6,732.00	\$6,426.00	\$6,426.00		
Staff Eng	Staff Eng	E2C	\$344.00/hr	\$688.00	2 hrs	Cost									
Material		MTL	\$1.00	\$1,349,400.00	1,349,400	Cost		\$25,000.00	\$651,250.00	\$13,125.00	\$5,625.00				\$150,000.00
Travel		TVL	\$1.00	\$120,000.00	120,000	Cost	\$10,000.00	\$0,000.00			\$10,000.00				\$10,000.00
Senior Executive Engineer	Executive Engineer	E1	\$376.00/hr	\$288,016.00	768 hrs	Cost	\$12,764.00	\$16,544.00	\$15,040.00	\$17,596.00	\$19,852.00	\$15,942.40	\$18,048.00		
ODC		ODC	\$1.00	\$0.00	0	Cost									
Junior Engineer	EE HW	E4	\$154.00/hr	\$400,336.40	2,599.6 hrs	Cost	\$4,928.00		\$27,720.00	\$34,668.40	\$28,754.88	\$33,843.04			
Manufacturing Engineer		MSE	\$324.00/hr	\$0.00	0 hrs	Cost									
Test Techs	Test Tech	TT	\$151.00/hr	\$349,112.00	2,312 hrs	Cost			\$59,796.00	\$69,460.00	\$24,160.00				\$26,576.00
Program Controls		SCH	\$111.00/hr	\$26,904.40	260.4 hrs	Cost	\$1,056.72	\$1,367.52	\$1,243.20	\$1,305.36	\$1,367.52	\$1,305.36	\$1,205.00		
Production Planning/Inventory Control		PPIC	\$138.00/hr	\$0.00	0 hrs	Cost									
			\$0.00/hr	\$0.00	0 hrs	Cost									

Supporting Data Required of Suppliers for Technical Evaluations of Proposals

Technical Evaluation Checklist

- ◆ Suppliers should identify the basis for the labor hours:
 - Ideal basis is actual data from previous build of product
 - ◆ Changes or improvements in the process since previous build
 - If no previous build applies, hours can be based on:
 - ◆ Estimates
 - ◆ Labor for similar product
- ◆ Suppliers should break down the hours per unit
- ◆ Suppliers should also clearly identify if any attrition is built into the labor, i.e., if they are manufacturing 25 parts to yield 20

Supporting Data Required of Suppliers for Technical Evaluations of Proposals

Technical Evaluation Checklist

Labor hours should be broken down into sufficient categories with labor codes/levels:

- ◆ Typical Levels – Junior, Senior, Master, Principal
- ◆ RF Suppliers Typical Categories:
 - Assembly (Component, Module)
 - Technician (Test, Tune, Assembly)
 - Engineering (Test, Manufacturing, Design)
 - Drafting/CM
 - Machinist
 - Quality (Engineering, Inspection)
- ◆ CEM Suppliers Typical Categories
 - Operator (Assembly, Line)
 - Assembly (Solderer, Wirer, Component)
 - Technician (Test, X-RAY, AOI)
 - Drafting/CM
 - Quality (Inspection)
- ◆ Metal Fab Suppliers Typical Categories
 - Machinist
 - Fabrication
 - Operator
 - Engineering
 - Drafting/CM
 - Quality
- ◆ Additional Categories Such as Contracts, Admin, Program Management, Support may also apply
- ◆ Large, pooled hours should be closely reviewed. Highly technical hours (such as tune and test) in excess of 80 for a specific task per unit will require additional breakdown to be assessed. For mid- or non-technical labor hours (such as operator, quality, drafting), hours in excess of 25 per unit for a specific task may require additional breakdown to be assessed.

Supporting Data Required of Suppliers for Technical Evaluations of Proposals

Example of Labor Hour by Task

<u>Labor Summary QTY 18, 22</u>					
<u>Task Description</u>	<u>HOURS</u>	<u>RATE</u>	<u>LABOR \$</u>	<u>OVHD %</u>	<u>OVHD \$</u>
<u>PCBDS</u>					
81- Assm Oper	3.3	27.55	91	63%	57
83- Sr Assm Oper	5.2	31.21	162	63%	102
84- Jr Tech		31.54	0	63%	0
85- Tech.	0.1	34.62	3	63%	2
	<u>8.6</u>		<u>256</u>		<u>161</u>
<u>Assy / Test</u>					
81- Assm Oper	8.8	26.83	236	197%	465
83- Sr Assm Oper	1.9	31.59	60	197%	118
85- Tech.	4.1	34.89	143	197%	282
86- Sr. Tech.	8.0	40.01	320	197%	630
87- Master Tech.	<u>15.5</u>	<u>48.54</u>	<u>752</u>	<u>197%</u>	<u>1481</u>
	<u>38.3</u>		<u>1511</u>		<u>2976</u>
<u>Engineering</u>					
88- Engineer C	0.2	43.52	9	197%	17
89- Engineer B	1.8	62.80	113	197%	223
91- Sr Engineer	1.2	82.96	100	197%	196
94 - Prog Mgr	<u>6.4</u>	<u>83.08</u>	<u>532</u>	<u>197%</u>	<u>1048</u>
	<u>9.6</u>		<u>753</u>		<u>1484</u>
<u>Drafting</u>					
97- Designer	0.4	46.84	19	197%	37
<u>QC</u>					
65- Q.C. Inspec	4.3	34.90	150	197%	296
67- Q.C. Engr	<u>0.3</u>	<u>52.38</u>	<u>16</u>	<u>197%</u>	<u>32</u>
	<u>4.6</u>		<u>166</u>		<u>328</u>
<u>Machine Shop</u>					
68- Machinist	5.0	41.35	207	75%	155
Sub Total	66.5		<u>\$2,912</u>		<u>\$5,141</u>
LAB ESC.@	4.7%		\$137		\$242
			<u>\$3,049</u>		<u>\$5,383</u>

Supporting Data Required of Suppliers for Technical Evaluations of Proposals

Example of Labor Hour by Task

Labor Summary					
Task Description	HOURS	RATE	LABOR \$	OVHD %	OVHD \$
<u>PCBDS</u>					
81- Assm Oper	10.9	27.55	300	64%	192
83- Sr Assm Oper	15.2	31.21	474	64%	303
84- Jr Tech	1.0	31.54	32	64%	20
85- Tech.	0.1	34.62	3	64%	2
	<u>27.2</u>		<u>809</u>		<u>517</u>
<u>Assy / Test</u>					
81- Assm Oper	11.6	26.83	311	197%	613
83- Sr Assm Oper	13.3	31.59	420	197%	827
85- Tech.	10.0	34.89	349	197%	688
86- Sr. Tech.	47.7	40.01	1908	197%	3759
87- Master Tech.	<u>14.1</u>	48.54	<u>684</u>	197%	<u>1347</u>
	96.7		3672		7234
<u>Engineering</u>					
88- Engineer C	4.0	43.52	174	197%	343
89- Engineer B	8.0	62.80	502	197%	990
91- Sr Engineer	3.3	82.96	274	197%	539
94 - Prog Mgr	<u>6.4</u>	83.08	<u>532</u>	197%	<u>1047</u>
	21.7		1482		2919
<u>Drafting</u>					
97- Designer	1.9	46.84	89	197%	175
<u>Maint</u>					
71- Maint Tech	0.2	38.46	8	64%	5
<u>QC</u>					
65- Q.C. Inspec	10.5	34.90	366	197%	721
66- Q.C. Tech	1.1	43.12	47	197%	93
67- Q.C. Engr	<u>1.5</u>	52.38	<u>79</u>	197%	<u>156</u>
	13.1		492		970
<u>Machine Shop</u>					
68- Machinist	11.5	41.35	476	75%	357
Sub Total	172.3		<u>\$7,028</u>		<u>\$12,177</u>
LAB ESC.@	4.7%		\$330		\$572
			<u>\$7,358</u>		<u>\$12,749</u>
Totals					

Basis for Labor Rate Estimates - Direct Labor Rate

The Offeror must also provide the basis for proposed labor rates and supporting data to include budgetary and trend data. The basis may be:

- ◆ Forward Pricing Rate Agreement (FPRA)
- ◆ Forward Pricing Rate Recommendation (FPRR)
- ◆ Forward Pricing Rate Proposal (FPRP) recently submitted to the Government for review
- ◆ Telephonics annual rate agreement
- ◆ Calculated Pooled Wage Rates

Basis for Labor Rate Estimates - Direct Labor Rate (cont'd)



Adequacy
Checklist

Typical Direct Rate BOE would contain:

- ◆ Period of Performance
- ◆ Labor Categories (Pools)
- ◆ Identification of staff (without named identity) within each pool
- ◆ Current Payroll Register utilized in each pool calculation
- ◆ Include Trended Calculations (preceding) and Proposed Calculations (forward)
- ◆ Rationale for proposed pooled rates
- ◆ Name of person who owns that BOE

Direct Rate Trends

Develop year-over-year views of each pool

YTD	YE Forecast	YE 2013	YE 2012
-----	----------------	------------	------------

Look for trending and consistency amongst these 4 views

◆ Assembly Pool of Individuals:

- Individual 1
- Individual 2
- :

◆ Rate

◆ Technician Pool of Individuals:

- Individual 1
- Individual 2
- :

Indirect Costs

For Indirect Costs included in proposals at any tier, the following apply:

- ◆ The proposal shall indicate how indirect costs have been computed and applied, including time-phased cost breakdowns
- ◆ For each year of the period of performance, the rates utilized must be supported by a discrete sales forecast and detailed firm/budgetary data in order to provide a solid basis for evaluating their overall reasonableness. **The use of flat-lined rates is prohibited.**
- ◆ The proposal shall indicate the rates utilized and provide an appropriate explanation



Adeqacy
Checklist

Indirect Rate Pools

Overhead Rate

Expense Pool:

- ◆ Direct Labor Fringe
- ◆ Indirect Labor + Fringe
- ◆ Taxes/Insurance share
- ◆ Mfg Supplies/Eq/Depre
- ◆ Mfg Indirect Services
- ◆ Facility/Utilities share
- ◆ Less unallowables

Allocation Base:

- ◆ Direct Labor

G&A Rate

Expense Pool:

- ◆ G&A Labor + Fringe
- ◆ Officers Labor + Fringe
- ◆ IR&D/B&P Labor + OH
- ◆ Taxes/Insurance share
- ◆ Acc't/Legal Services
- ◆ Supplier/Eq/Depre
- ◆ Facility/Utilities share
- ◆ Less unallowables

Allocation Base:

- ◆ Total Cost Input = Material + Direct Labor + Overhead

$$\text{Rate} = \text{Expense Pool} / \text{Allocation Base}$$

Indirect Rate Trends

Develop year-over-year views of financial value

YTD	YE Budget	YE 2013	YE 2012
-----	--------------	------------	------------

Look for trending and consistency amongst these 4 views

- ◆ Sales
- ◆ Expense Pool:
 - Account 1
 - Account 2
 - :
- ◆ Allocation Base
- ◆ Rate

Cost Tracking

- ◆ GAAP – generally accepted method of determining or estimating costs, in line with financial statements – ***entity's financial condition***
- ◆ GAGAS – generally accepted government method of reviewing financial statements and internal processes –
 - ***Internal controls ensure accurate and complete recordkeeping***
 - ***Greater demonstrated internal cost controls translate to less intensive and protracted audit events***
- ◆ FAR Part 31.2 - Applicable cost principles covering expenses:
 - (202-1) Total cost = direct, indirect
 - (201-2, 6) Allowable: excluding unallowable types (e.g. interest, bad debts, fines, contract loss, entertainment, personal use)
 - (202-3) Reasonable: nature and amount
 - (202-4) Allocable: necessary
 - (202-5) Credit or rebate: applied against expense

Other Direct Costs (ODC)

The term Other Direct Costs (ODC) is a loosely defined term that refers to anything charged directly to a contract not otherwise included as Direct Material or Direct Labor. Examples of items often classified as ODC include:

- ◆ Special tooling
- ◆ Special test equipment
- ◆ Outside consulting
- ◆ Outside processing not receiving Material overhead
- ◆ Travel (most common)

Travel Requirements

If the Offeror proposes travel costs, it might show the basis for the proposed travel costs as follows:

City/State	Trips	Persons	Days	Airfare	Total Airfare	Lodging	Total Lodging	Per Diem	Total Per Diem	Car Rental	Total Car Rental	Grand Total
Washington D.C.	4	2	3	\$198	\$1,584	\$105	\$2,520	\$103	\$2,472	\$49	\$1,176	\$7,752
Dallas, TX	1	4	8	\$245	980	\$120	\$3,840	\$90	2,880	\$35	280	\$7,980
San Diego, CA	2	2	3	\$540	2160	\$140	\$1,680	\$103	1,236	\$40	240	\$5,316
Total					\$4,724		\$8,040		\$6,588		\$1,696	\$21,048

Basis for Pricing - Travel

- ◆ Cost details alone are often insufficient. **FAR 15.408, Table 15-2** requires the Offeror to provide the BOE often satisfied by a narrative description of the costs. For example, travel requirements:
 - Justify the trips: Are they required by the contract? Are they necessary for coordination with subcontractors?
 - Explain the basis for the proposed airfares, per diem, and car rental. Are the airfares based on current commercial rates adjusted for projected changes? Are the per diem rates based on established company rates or CONUS as published by the Government? What is the basis for the proposed rental car rates?
- ◆ BOE details should be provided for any other proposed ODC. Purchased items should show the description, quantities required, and unit prices.

Royalties and Cost of Money

If royalties exceed \$1,500, the Offeror must provide the following information on a separate page for each separate royalty or license fee:

1. Name and address of licensor
2. Date of license agreement
3. Patent numbers
4. Patent application serial numbers, or other basis on which royalty is payable
Brief description (including any part or model numbers of each contract item or component on which royalty is payable)
5. Percentage or dollar rate of royalty per unit
6. Unit price of contract item
7. Number of units
8. Total dollar amount of royalties
9. If specifically requested by the SCM professional, a copy of the current license agreement and identification of applicable claims of specific patents (see **FAR 27.202** and **31.205-37**)
10. If proposal includes Cost of Money, include Form CASB-CMF

[Cost Proposal Template](#)

Workshop

Workshop

- ◆ This workshop has been designed to highlight the delays in the cost analysis process when a proposal is deemed not adequate upon submission and to demonstrate the benefits of utilizing a tool like the Proposal Adequacy Checklist
- ◆ Teams will be formed and required to review the certified cost proposals submitted by Advance Tank Technologies against the requirements of the Proposal Adequacy Checklist
- ◆ Teams will generate an exceptions list detailing the proposals inadequacies and recommended corrective actions
- ◆ Each team will have 60 Minutes to complete this exercise and a team spokesman will be called upon to present the results of the team's work to the conference audience

ENJOY!

Cost Proposal Adequacy Workshop

1. Break out into teams of five (5) individuals to evaluate the proposal utilizing the Telephonics Proposal Adequacy Checklist
2. Based on given item numbers from the Telephonics Proposal Adequacy Checklist, the teams are challenged to identify the inadequacies in ATT's submitted proposal and recommend corrective action.
3. At the end of the analysis period, the conference leaders will provide the teams with the solution set.
4. The teams will be surveyed to determine which inadequacies were identified during the analysis period.
5. Team representatives will be called up to the conference floor to describe the inadequacy and recommend their proposed corrective action.
6. Each team will be called upon, at least once, to discuss the issues found

Cost Proposal Adequacy Workshop

Background information:

1. Advanced Tank Technologies (ATT) was incorporated in the State of Maryland in 1995. ATT is a research and development concern specializing in engineering feasibility studies and surface vehicle design. In 2005, ATT developed a small manufacturing capability that enables it to manufacture prototypes of its basic designs. ATT had to borrow funds from a local lending institution to establish this capability. ATT provides services primarily to major DoD contractors on a firm-fixed price (FFP) basis.
2. This procurement, solicited by Request for Proposal (RFP) number DAAH01-02-R0001, calls for the production of 50 prototypes of a new heavy-duty shock absorber. ATT designed this part under another Army contract for the Armored Personnel Carrier Program.
3. The period of performance is February 28, 2013 to September 30, 2015.

Wrap Up

An “adequate cost proposal” is the first step on the path to contract award.

As a partner, your company's role in the submission of an adequate cost proposal is critical to the entire proposal process.

The Proposal Adequacy Checklist has proven to be an effective tool to ensure the submission of an adequate cost proposal supported by certified cost or pricing data and ultimately lead to the determination of fair and reasonable prices.

The templates that we have provided to you are designed to streamline the process by making it more efficient for all parties and mitigating the need for rework.

Embrace and utilize the tools and knowledge gained today in the preparation of your future cost proposals and to avoid the pitfalls and omissions known to plague the submission of an adequate cost proposal.

Together, and only as partners, can we achieve BUSINESS ACCELERATION.

Thank You for your participation

The Telephonics and Lockheed Martin Team