



# **Government Cost/Price Evaluation Insights**

**Shannon Prince  
September 2016**



# Overview



*AFLCMC... Providing the Warfighter's Edge*

- **Why Evaluate For Cost/Price?**
- **Cost/Price Evaluation Criteria**
- **Value-Adjusted Total Evaluated Price (VATEP)**
- **Observations of Cost/Price Volumes**
- **Summary**



# Why Evaluate for Cost/Price?



AFLCMC... Providing the Warfighter's Edge

- **FAR 15.402:**

**Contracting Officers shall --**

**(a) Purchase supplies and services from responsible sources at *fair and reasonable (F&R) prices***

- **Basis for all pricing-related regulations and policies**

**Burden of proof is Contractor's for F&R prices**



# Cost/Price Evaluation Criteria



*AFLCMC... Providing the Warfighter's Edge*

- **Depending on the effort, the Government will include the applicable cost/price evaluation criteria that are necessary to properly evaluate the Offeror's cost/price volume. These can include:**
  - **Price Reasonableness**
  - **Realism**
    - **Cost Realism**
    - **Price Realism**
  - **Unbalanced Pricing**
  - **Completeness**
  - **Affordability**
- **The following charts will cover these in more detail**



# Price Reasonableness



*AFLCMC... Providing the Warfighter's Edge*

- **What is a Reasonable Price?**
  - A price is reasonable if it represents a price to the Government that a prudent person would pay in the conduct of competitive business
- **The Government Accounting Office (GAO) has held that an agency's concern in making a price reasonableness determination is whether the offered prices are too high**

Price Reasonableness is always included as an evaluation criteria



# Price Reasonableness (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **How is price reasonableness evaluated?**
  - **Normally, price reasonableness is established through cost and price analysis techniques as described in FAR 15.404-1**
  - **FAR 15.305(a)(1)**

**“Normally, competition establishes price reasonableness. Therefore, when contracting on a firm-fixed-price or fixed-price with economic price adjustment basis, comparison of the proposed prices will usually satisfy the requirement to perform a price analysis, and a cost analysis need not be performed. In limited situations, a cost analysis (see 15.403-1(c)(1)(i)(B)) may be appropriate to establish reasonableness of the otherwise successful offeror’s price.”**



# Price Reasonableness (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **How is price reasonableness evaluated? (Cont'd)**

- **FAR 15.404-1(a)(2)&(4)**

**“(2) Price analysis shall be used when certified cost or pricing data are not required (see paragraph (b) of this subsection and 15.404-3).”**

**“(4) Cost analysis may also be used to evaluate data other than certified cost or pricing data to determine cost reasonableness or cost realism when a fair and reasonable price cannot be determined through price analysis alone for commercial or non-commercial items.”**



# Price Reasonableness (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **Price analysis techniques (FAR 15.404-1(b))**
  - Price analysis is the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit
  - Price analysis may include evaluating data other than certified cost or pricing data obtained from the offeror or contractor when there is no other means for determining a fair and reasonable price
  - Examples of price analysis techniques are included in FAR 15.404-1(b); the two preferred FAR techniques are:
    - Comparison of proposed prices received in response to the solicitation. Normally, adequate price competition establishes a fair and reasonable price
    - Comparison of proposed prices to historical prices paid for the same or similar item



# Price Reasonableness (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **Adequate Price Competition**

- **FAR 15.403-1(c)(1)**

- For purposes of this briefing, subsection (i) is provided below. Refer to the FAR for subsections (ii) and (iii)
- A price is based on adequate price competition if –
  - “(i) Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government’s expressed requirement and if –
    - (A) Award will be made to the offeror whose proposal represents the best value (see 2.101) where price is a substantial factor in source selection; and
    - (B) There is no finding that the price of the otherwise successful offeror is unreasonable. Any finding that the price is unreasonable must be supported by a statement of the facts and approved at a level above the contracting officer;”



# Realism



*AFLCMC... Providing the Warfighter's Edge*

- **Cost Realism (FAR 15.404-1(d))**
  - **Required for cost-reimbursement efforts to determine the probable cost of performance for each offeror**
    - **Except for cost-reimbursement contract line items (CLINs) where the Government has provided the cost value**
  - **Uses cost analysis techniques**
  - **Is the process of independently reviewing and evaluating specific elements of each offeror's proposed cost estimate to determine whether the estimated proposed cost elements**
    - **Are realistic for the work to be performed;**
    - **Reflect a clear understanding of the requirements;**
    - **Are consistent with the unique methods of performance and materials described in the offeror's technical proposal**



# Realism (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **Cost Realism (Cont'd)**
  - **Probable Cost**
    - **May differ from the proposed cost and should reflect the Government's best estimate of the cost of any contract that is most likely to result from the offeror's proposal**
      - **The probable cost shall be used for purposes of evaluation to determine the best value**
    - **Probable cost is determined by adjusting each offeror's proposed cost, and fee when appropriate, to reflect additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis**
  - **Offerors will be provided instructions within Section L pertaining to the submission of data other than certified cost or pricing data requested for the evaluation of cost realism**



# Realism (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **Price Realism (FAR 15.404-1(d)(3))**
  - **Term coined by GAO to distinguish between cost realism analysis of cost-type efforts and realism analysis of fixed-priced efforts**
  - **May be used on competitive fixed-price incentive contracts, or in exceptional cases, on other competitive fixed price contracts when:**
    - **New requirements may not be fully understood by competing offerors**
    - **There are quality concerns**
    - **Past experience indicates that contractors' proposed costs have resulted in quality or service shortfalls**
  - **Required for fixed-price efforts that include FAR clause 52.222-46, Evaluation of Compensation for Professional Employees**
    - **Offerors will be instructed to provide a total compensation plan setting forth salaries and fringe benefits for evaluation**
  - **Results of analysis may be used in performance risk assessments and responsibility determinations**
  - **Offeror prices shall not be adjusted as a result of the analysis**



# Unbalanced Pricing



*AFLCMC... Providing the Warfighter's Edge*

- **FAR 15.404-1(g)**
- **Exists when, despite an acceptable total evaluated price, the price of one or more contract line items is significantly over or understated**
- **Evaluated using cost or price analysis techniques**
  - **If analysis techniques indicate an offer is unbalanced, the contracting officer will consider the risks to the Government and consider whether award will result in paying unreasonably high prices**
  - **An offer may be rejected if the contracting officer determines the lack of balance poses an unacceptable risk to the Government**



# Completeness and Affordability



*AFLCMC... Providing the Warfighter's Edge*

- **Completeness**
  - Evaluated to determine if Offerors have complied with the instructions in Section L
- **Affordability**
  - The Government may provide a monetary cap as part of the RFP in order to evaluate affordability
    - Typically affordability is evaluated by comparing the offeror's proposed price to the cap provided in the RFP
      - If the Offeror's proposed price exceeds the affordability cap, their proposal may be deemed unawardable



# Value Adjusted Total Evaluated Price (VATEP)



*AFLCMC... Providing the Warfighter's Edge*

- **Appendix B of DoD Source Selection Procedures effective 1 Apr 16**
- **Includes objective, monetized evaluation factors**
  - **Monetizes different levels of performance corresponding to minimum (threshold) and maximum (objective) performance/capabilities for “valued requirements”**
  - **RFP identifies percentage or dollar amount assigned to valued requirements (downward TEP adjustment only)**
    - **Allows offeror to determine if additional cost of offering better performance will improve their competitive position**
    - **No extra credit for exceeding maximum (objective)**
    - **Allows source selection team to assign a monetary value to higher rated technical attributes, removing some subjectivity from evaluation**



# Value Adjusted Total Evaluated Price (VATEP) (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- The resultant contract is awarded at offeror's final total proposed price – the TEP adjustment is for evaluation purposes only
- The result of VATEP evaluation is the potential downward price adjustment – no further evaluation credit is given for the valued requirements

**Total Evaluated Price = Total Proposed Price – Sum of Value Adjustments**



# Observations



*AFLCMC... Providing the Warfighter's Edge*

- **Submitting a complete price volume**
  - **Section L and/or the RFP cost/price matrix will provide instructions on providing the requisite data necessary for the cost/price evaluation**
    - **Failure to provide the requested data/information or to fully populate the cost/price matrix could result in offeror being determined unawardable**
- **Provide substantiating data in cost/price volume to support realism of proposed costs**
  - **The burden of proof is on the Offeror when it comes to supporting realistic costs**
  - **Types of information that could be provided might include:**
    - **Payroll records, printouts of salary databases**
    - **Indirect rate actuals over the course of a few years, provisional billing rates, FPRA/FPRR, Rate/CER manuals**
    - **Material/ODC quotes**
    - **Labor BOE substantiation that provides calculations, explanations, etc.**
    - **Subcontractor cost level information**



# Observations (Cont'd)



*AFLCMC... Providing the Warfighter's Edge*

- **If large variances exist between line items that are not explained by the proposed technical solution, recommend providing rationale in the cost/price volume for why the variance exists**
  - **Providing rationale could potentially reduce the possibility of the Government issuing an EN pertaining to unbalanced pricing**
- **Rounding**
  - **Most RFPs request offerors to round their proposed values to certain decimal places**
    - **Examples include rounding labor rates to the nearest penny and/or dollar amounts to the nearest dollar**
    - **Different than using the increase/decrease decimal functions within Excel**
      - **Recommend using Excel's Round function to round to the appropriate decimal place**



# Excel Round Function



*AFLCMC... Providing the Warfighter's Edge*

A	B	C	D
1	Rounding to Two Decimal Places		
2			
3	Non-Rounded Value	Round Function Formula	Rounded Value
4	45.637532	=ROUND(B4,2)	45.64
5			
6			
7	Rounding to Zero Decimal Places		
8			
9	Non-Rounded Value	Round Function Formula	Rounded Value
10	15450800.4537	=ROUND(B10,0)	15450800



# Summary



*AFLCMC... Providing the Warfighter's Edge*

- **There are various cost/price evaluation criteria that can be used as part of a source selection evaluation**
  - The specifics of the RFP will determine which ones will be incorporated into the cost/price evaluation
  - Reasonableness is evaluated as part of every source selection
- **VATEP allows for downward adjustments to the TEP if an Offeror exceeds the threshold of selected “value requirements”**
- **Following Section L/Price Matrix Instructions and providing the appropriate substantiation for proposed costs will benefit everyone**



*AFLCMC... Providing the Warfighter's Edge*

# Questions?