

# 1. PLANNING EFFECTIVELY

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## 1.1 OVERVIEW

This chapter addresses the concepts and critical issues involved with planning effectively for a successful cost/price analysis. Effective planning is an essential step for the analyst because it helps the analyst provide an accurate price recommendation within a specified time period. The key aspects of planning for any cost/price analysis include: developing a schedule, determining the degree of information required from the contractor, determining the tools and techniques required for the analysis, and planning for technical/audit assistance.

As soon as analysts know they will be supporting a project, the analysts must develop a strong working relationship with the end-user of the analysis. Open communication between an analyst and the end-user is essential. Once established, it will allow an analyst to plan effectively and facilitate a smooth analysis.

If the procurement is competitive, the analyst will want to be more involved in the up-front planning. An analyst's input and understanding are critical in development of cost data requirements Sections B, L, and M of the screening information request. Often an analyst will be asked to construct an automated model into which data may be entered by the contractors. This makes evaluation faster and easier and reduces chance of error. The following sections first provide an overview of the entire process and then address each of the four key aspects of planning mentioned above.

## 1.2 SCHEDULING THE ANALYSIS

### 1.2.1 Developing the Schedule

The contracting officer (CO) or program office will often dictate certain milestones and report dates for the analyst. Awareness of these milestones prior to commencing analysis activities will allow the analyst to plan effectively and meet all end-user requirements. Time constraints placed on an analysis can influence the level of analysis and should be taken into consideration. Schedule development is crucial for both the analyst and the program office because they must know how long the proposal analysis takes to finish, what the critical tasks are, and the probability of completing the analysis within a given time span.

When developing the schedule, the analyst must identify each of the tasks involved with the analysis, time estimates for each task, and necessary resources. The analyst must be realistic in developing the schedule, allowing for unanticipated events and building in adequate time for receipt of data from external sources (i.e., audit, quantitative & qualitative analysis etc.). It

is important to distribute the schedule to everyone involved in the process. This schedule can be treated as a “living” document in the sense that it is updated (and redistributed) periodically to ensure that everyone is working according to a common timeline.

Critical to the pricing process is early involvement of the analyst and his continued involvement as the program progresses.

### **1.2.2 Maintaining the Schedule**

Once a schedule has been developed, it should be updated and maintained. The analyst should record actual dates and show changes. The analyst should monitor progress on the schedule and call attention to any delays that threaten the success of the analysis. Changes in the schedule are often out of the analyst’s control. For instance, delayed feedback from technical analysts or auditors may create a bottleneck and prolong the analysis. These changes need to be communicated to other members on the project.

### **1.2.3 Using Automation When Scheduling**

It is important to develop the schedule in such a manner that changes to the completion date can be easily forecast and new milestones easily assigned. Various automated scheduling tools exist to assist the analyst in developing the schedule. Microsoft Project® is but one example of the many excellent scheduling products available. These tools highlight critical tasks and link them in order to estimate the completion date of the project. These tools are user-friendly and can be standardized or customized for each analysis.

## **1.3 DETERMINATION OF THE DEGREE OF INFORMATION REQUIRED**

After developing the schedule, the analyst should determine the level of information required to perform the analysis. Depending on the level of competition or the specifics of the procurement, the analysis may require as little as top level prices or more in-depth cost data. The analyst should provide input to the CO as to what will be required to successfully complete the analysis.

In accordance with the FAA AMS, cost and pricing data should not be requested if the CO determines that adequate price competition exists. However, if the CO determines that the level of competition does not support the determination of price reasonableness, or the otherwise successful offeror’s price cannot be determined to be reasonable, the CO may require cost and pricing data or information other than cost and pricing data to the extent necessary to support a determination of fair and reasonable price. [FAA AMS Procurement Guidance T3.2.3A.1.a(1)(c)].

The current FAA AMS states that the CO has the flexibility to 1.) determine whether or not to require cost and pricing data; 2.) to decide what degree or level of detail data should be requested, and 3.) to decide whether or not the data should be certified. The CO may consider the following factors to determine the appropriate data requirement:

- 1.) Availability of recent price data for the same or similar goods or services procured on a competitive basis.
- 2.) Degree of competition attained, i.e., level to which competitive market forces can be expected to influence submission of reasonable prices.
- 3.) Uncertainty of the market place such as how volatile market prices or technological changes may impact vendor prices or costs.
- 4.) Availability of independent cost estimate/data which increases the degree of confidence the CO has in the internal estimate or other data which would provide an effective means to objectively evaluate proposed costs or prices.
- 5.) Degree to which developmental effort or technical complexity is inherent to the requirement.
- 6.) The degree to which risk to the agency mitigated by the choice of contract type. [FAA AMS Procurement Guidance T3.2.3A.1.a (3)(b)(vi)].

**ADEQUATE PRICE COMPETITION MAY EXIST WHEN:**

1. Two or more responsible offerors competing independently, submit priced offers responsive to the Agency expressed requirement;
2. There was a responsible expectation based on market research or other assessment that two or more responsible offerors competing independently would submit priced offers responsive to the screening information request's expressed requirement even though only one offer is received from a responsible responsive offeror;
3. Price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items purchased under comparable quantities, under comparable terms and conditions under contracts that resulted from adequate price competition. [FAA AMS Procurement Guidance T.3.2.3A.1.a.1.(b) ]

The level of data requested can also be influenced by the type of procurement. Understanding the procurement type allows the analyst to structure an analysis to suit the particular goods or services being procured. Whether the program is for commercial-off-the-shelf (COTS) items, research and development, production, maintenance, construction, services, etc., will determine the contract type employed and therefore, influence the type and level of analysis to be conducted in an evaluation. For example, a COTS procurement will most often utilize a fixed-price contract requiring price data only. A research and development contract, however, will most likely employ a cost-reimbursable contract requiring both cost and price analysis.

The analyst needs to study the procurement carefully and work closely with the CO and the program office to assure that the SIR requests the appropriate level of data.

## 1.4 TOOLS REQUIRED FOR ANALYSIS

### 1.4.1 Essential To Most Procurements Are Independent Government Cost Estimates (IGCEs)

One of several key techniques in performing price analysis is comparison of the proposed prices with the IGCE. IGCEs should be submitted by the program office with the procurement request package and are to be provided for procurement actions over \$100,000 (or for any lower dollar value when the CO determines it necessary), with exceptions noted in AMS Procurement Guidance T3.2.3.A.2.b. IGCEs can be used to determine the reasonableness and completeness of the proposals and to detect buy-ins, unbalanced pricing, and other gaming techniques. IGCEs may also be complemented by economic analysis and/or cost studies. Without these key elements, structuring of Uniform Contract Sections B, L, and M can be difficult. The evolution of these estimates progresses as the procurement concept grows. Estimates must be conducive to the pricing evaluation. Too often estimates are done only to support budget or technical trade-offs and cannot be translated to contract line item number (CLIN) and work breakdown structure (WBS) break-outs. In order for the analyst to develop a realistic pricing evaluation for a complex procurement, initial estimates should support the development of Section B CLINS and provide evidence of establishing marketable prices which relate to these CLINs. Less complex procurements such as those in which the price of an item or service can be determined without examining individual cost elements, such as when acquiring commercial items, may not require detailed IGCEs, and can be adequately served by a lump sum “bottom-line” IGCE. The program office determines whether the IGCE should be developed as a lump sum estimate, detailed estimate, by CLIN, and/or by WBS. To ensure the estimates will be conducive to the pricing evaluation, the analyst should assist in the development of the estimate. Generally, market surveys, study of historical databases, and development or use of cost estimating relationships (CERs) are the methods used to develop pricing data. Various tools may be used by the analyst. Some examples are learning curves, material price databases, regression analysis tools, inflation indices, and material and productivity factors. The applications of these tools are discussed in more detail in Chapter 15, Part IV of this Handbook.

### 1.4.2 The Cost Model

The analyst should plan for the development of a cost/price model. As mentioned previously, in a competitive procurement it is often useful to have an automated model with the SIR for direct input by the contractors. This reduces evaluation time and minimizes errors. The complexity of the model would be based on the level of information requested by the offeror and the end-user's needs. The construction of the model will depend heavily on the type(s) of contract, CLIN structure, WBS structure, and quantity of data required. Again, the analyst must work closely with the CO and program office to assure that mutual goals are met.

## 1.5 PLANNING FOR TECHNICAL/AUDIT ASSISTANCE

A key step when planning a cost proposal analysis is to determine the level of technical and audit assistance necessary to complete a thorough evaluation. Technical assistance can be provided to the analyst through a quantitative and qualitative evaluation conducted by the program office. Audit assistance is usually provided by the Defense Contract Audit Agency (DCAA). Audit support may be provided in varying degrees: a rate verification, partial audit (selected cost elements), or full audit.

There are many factors the analyst should consider when determining the extent of technical and audit support needed. Some examples include the type of procurement, e.g., developmental versus commercial-off-the-shelf (COTS) equipment, as well as the size, complexity, and total cost of the procurement.

### 1.5.1 Quantitative and Qualitative Review

If a quantitative and qualitative (Q&Q) review will be performed, the analyst should coordinate with the Q&Q team prior to proposal receipt if at all possible. The analyst should develop a working relationship with the Q&Q team to ensure that respective roles are understood by each party. The analyst can provide the Q&Q team with specific areas to concentrate on, such as proposed direct labor hours, labor skill mixes, and material estimates. The analyst may also help establish a presentation format for the results and identify any significant requirement dates for the Q&Q team.

### 1.5.2 Defense Contract Audit Agency Audit (DCAA)

The FAA may audit a contractor's records of actual costs or records of cost or pricing data when the information relates to contract price [FAA AMS Procurement Guidance T3.2.3A1.f]. Depending on the level of analysis required for the procurement, the analyst must determine if a full audit, partial audit, or rate verification will be necessary. If a rate verification is sufficient for proposal or contract, the analyst requests the auditor to develop recommended

rates for applicable labor categories and corresponding indirect rates.

Under contracts for which cost and pricing data are required, the FAA's right to examine and audit extends to data that are necessary for adequate evaluation of cost or pricing data. This includes computations and projections [FAA AMS Procurement Guidance T3.2.3A1.f(2)]. If a partial or full audit is necessary, the analyst should plan a pre-audit conference (either via telephone or in person) with DCAA. This will allow the analyst to provide the auditors with a clear understanding of the audit scope, requirements, and due date.

## 1.6 SUMMARY

Effective planning prior to the commencement of proposal analysis can mitigate problems. Central to effective planning is preparation and communication. By developing an understanding of the procurement and communicating with the end-user, the analyst will be able to determine the appropriate type and level of analysis to be conducted. As a result, the analyst can effectively and efficiently perform the analysis within the time frame provided.

