

# CHANGE REQUEST COVER SHEET

**Change Request Number:** 10-54A

**Date Received:** 3/25/2010

**Title:** Miscellaneous Cost-Related Changes

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**Policy OR Guidance:** Guidance

**Section/Text Location Affected:** T3.2.3 and T3.2.3 Appendix D

**Summary of Change:** Adjustment of language related to certified/non-certified cost or pricing data, adjustment to language for pre-award and post-award DCAA audits, and adjustment to language for CAS Exemptions. Modifications of AMS clauses consistent with changes related to certified/non-certified cost or pricing data.

**Reason for Change:** Clarification of circumstances as to when CO should require certified or non-certified cost or pricing data as part of contractor proposals (issue originally raised by legal; clarification of DCAA audit requirements given more of final rate adjustment language to contract closeout section; and adjustment of CAS exemption language consistent with corresponding section in AMS policy.

**Development, Review, and/or Concurrence:** Acquisition Policy Division, Legal, Contracting Organizations at FAA HQ, Centers, and Regions (ARC)

**Target Audience:** FAA Contracting Workforce and Program Offices

**Potential Links within FAST for the Change:** None

**Briefing Planned:** No

**ASAG Responsibilities:** None

**Potential Links within FAST for the Change:** None

**Links for New/Modified Forms (or) Documents (LINK 1)** [null](#)

**Links for New/Modified Forms (or) Documents (LINK 2)** [null](#)

**Links for New/Modified Forms (or) Documents (LINK 3)** [null](#)

## SECTIONS EDITED:

### Procurement Guidance:

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

### **Section 1 : Proposal Analysis** [\[Old Content\]](#)[\[New Content\]](#) [\[RedLine Content\]](#)

### Procurement Guidance:

*T3.2.3 - Cost and Price Methodology*

*Appendix*

### **Section 1 : Appendix - Instructions for Submitting Cost/Price Proposals** [\[Old Content\]](#)[\[New Content\]](#) [\[RedLine Content\]](#)

### Procurement Guidance:

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

### **Section 3 : Cost Accounting Standards** [\[Old Content\]](#)[\[New Content\]](#) [\[RedLine Content\]](#)

## SECTIONS EDITED:

### **Section 1 : Proposal Analysis**

#### **Old Content:** Procurement Guidance:

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

#### **Section 1 : Proposal Analysis**

##### *a. Cost and Pricing Data.*

(1) *Requirement Decision.* A Contracting Officer (CO) has the discretion to require cost and/or pricing data to assure that negotiated prices are fair and reasonable. Cost and pricing data should be requested ONLY when the CO does not have reasonable assurance that costs or prices are fair and reasonable based on price analysis or other means of evaluation. When considering the extent to which cost and pricing data may be required the CO should consider the cost and schedule burden on the contractor to provide the information.

(a) When the CO determines adequate price competition exists, cost and pricing data should not be requested.

(b) Adequate price competition may exist when:

(i) Two or more responsible offerors competing independently submit priced offers responsive to the Agency expressed requirement;

(ii) 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; or

(iii) Price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items purchased in comparable quantities, and under comparable terms and conditions under contracts that resulted from adequate price competition.

(c) 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 price data or information other than cost and price data to the extent necessary to support a determination of fair and reasonable price.

(d) In situations where adequate price competition does not exist, the decision to require cost and pricing data and the level of data required should be based on the specific circumstances of the procurement taking into account the factors for consideration described in Subparagraph (3), "Factors to Consider."

(2) *Types of Information and Evaluation Method.* The CO may require information to support proposal analysis in any of the following degrees of detail:

(a) No cost data, in which case a price analysis is conducted,

(b) Information other than cost and pricing data, in which a price analysis and cost analysis appropriate to the data submitted are conducted; or

(c) Cost and pricing data, the offeror certifies to the accuracy, completeness and currency of the data and both price and cost analyses are conducted.

(3) *Factors To Consider.*

(a) The CO has the flexibility to determine:

(i) Whether or not to require cost and pricing data;

(ii) To what degree or level of detail data should be requested; and

(iii) Whether or not the data should be certified.

(b) The CO may consider the following factors to determine the appropriate data requirement:

(i) *Recent Price Data.* Availability of information on prices for the same or similar goods or services procured on a competitive basis.

(ii) *Degree of Competition Attained.* Level to which competitive market forces can be expected to influence submission of reasonable prices.

(iii) *Uncertainty of the Market Place.* How volatile market prices or technological changes may impact vendor prices or costs.

(iv) *Availability of Independent Cost Estimate/Data.* 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.

(v) *Technical Complexity of Procurement.* The degree to which developmental effort or technical complexity is inherent in the requirement.

(vi) *Contract Type.* The degree to which the decision of contract type mitigates the risk to the agency.

(4) *Requirement for Cost and Price Data.* When cost and pricing data are necessary, AMS Clauses 3.2.2.3-38, Requirements for Cost or Pricing Data or Other Information, and 3.2.2.3-39, Requirements for Cost or Pricing Data or Other Information – Modifications, must be inserted in the SIR. The clauses require the contractor to submit the information contained in the Appendix "Instructions for Submitting Cost/Price Proposals When Cost or Pricing Data are Required."

(5) *Requesting Information.* When requesting information other than cost or pricing data, the information should be limited to the extent necessary to determine price reasonableness or the cost realism. The level of detail and format of the data requested will be determined by the CO. Generally this will be a modified version of information requested in subparagraph (4), "Requirement for Cost and Pricing Data" above.

(6) *Subcontracts.* Contractors are required to submit cost or pricing data for proposed subcontracts or subcontract modifications only when necessary to determine the reasonableness of the proposed contract or subcontract price, including negotiated final pricing actions. The contractor is responsible for performing cost or price analysis when determining price reasonableness on subcontract proposals and for submitting the subcontract cost or pricing data if requested by the CO.

b. *Proposal Analysis.* The procurement team is responsible for evaluating proposals using the methods of price and cost analysis appropriate to the procurement. The CO is responsible for determining whether contract prices are fair and reasonable.

c. *Price Analysis.* Price analysis is a process of examining and analyzing a proposed price without evaluating separate cost elements and proposed profit/fee. Price analysis is the most commonly used method of proposal analysis and should be performed on all contractor proposals. Even when cost analysis is performed to evaluate individual cost elements of a contractor's proposal, some form of price analysis is needed to ensure that the proposed price is fair and reasonable. There are several techniques that may be used in performing price analysis:

- (1) Comparison of proposed prices received in response to the screening information request.
- (2) Comparison of prior proposed prices and contract prices with current proposed prices for the same or similar end items and services in comparable quantities.
- (3) Application of rough yardsticks (such as dollars per pound or per horsepower, or other units) to highlight significant inconsistencies that warrant additional pricing inquiry.
- (4) Comparison with competitive published catalogs or lists, published market prices or commodities, similar indexes, and discount or rebate arrangements.
- (5) Comparison of proposed prices with independent cost estimates.
- (6) Ascertaining that the price is set by law or regulation.

d. *Cost Analysis.*

(1) Cost analysis is the review and evaluation of the separate cost elements and proposed profit/fee of an offeror's proposal. The CO will determine whether cost analysis is appropriate. Cost analysis is not required to evaluate established catalog or market prices, prices set by law or regulation, and commercial items. If there are significant disparities in proposed prices, a limited form of cost analysis may be used to investigate the cause of the disparities. Cost analysis involves examining data submitted by the contractor and the judgmental factors applied in projecting estimated costs. Cost analysis also includes:

- (a) Verification that the contractor's cost submissions are in accordance with disclosed cost accounting procedures;
- (b) Comparisons with previous costs; and
- (c) Forecasts of future costs based on historical cost experience.

(2) Cost analysis is appropriate when factors affecting the procurement will not ensure a fair and reasonable price based on price analysis alone, and/or the agency needs an understanding of the cost buildup of the proposal to verify cost realism and reasonableness. The data required to perform the cost analysis should be limited to those cost elements that are necessary to ensure a fair and reasonable price determination.

(3) Cost analysis involves the following techniques and procedures:

- (a) Verification of cost or pricing data and evaluation of cost elements.
- (b) Evaluating the effect of the offeror's current practices on future costs.

- (c) Comparison of the costs proposed by the offeror with historical and actual costs, and previous cost estimates for the same or similar items.
- (d) Analysis of the contractor's evaluation in determining the reasonableness of the subcontract costs.
- (e) Verification of the offeror's proposed cost to ensure that it reflects cost realism and reasonableness.
- (f) Review to determine whether any cost or pricing data that is necessary to make the contractor's proposal accurate, complete, and current has been submitted or identified in writing.

*e. Field Pricing Support.*

- (1) Field pricing support is independent support intended to give the CO a detailed analysis report of the contractor's cost proposal. The field pricing support personnel include, but are not limited to, COs, contract auditors, price analysts, quality assurance personnel, and engineers.
- (2) The CO may request field pricing support when such support is deemed necessary before negotiating any contracts or modifications. Methods of field pricing support may include:
  - (a) Rate verifications;
  - (b) Third party audit;
  - (c) Estimating system audit; and
  - (d) Proposal analysis.

*f. Audit.*

(1) Service/product teams and program offices, through the CO, must request Defense Contract Audit Agency (DCAA) audits on all cost reimbursement contracts estimated to exceed \$100 million (including all options). In addition, DCAA audits must also be performed on at least 15% of all cost reimbursement contracts under \$100 million. At the discretion of the CO, audits may also be performed on other types of contracts. Lines of business will fund required pre- and post award audits and will include an estimate for the cost of the audits in the Program Baseline. The Implementation Strategy and Planning document will also address the approach, responsible organizations, and activities for obtaining audits. Individual contracting offices will be responsible for the managing and tracking of these audits. The final decision concerning which contracts under \$100 million will be audited will rest with the Chief of the Contracting Office (COCO).

(2) COs are encouraged to use good business judgments in deciding whether to obtain audits. If the CO decides not to obtain an audit, the file should be documented with the rational basis as to why the audit was not obtained. The cost of an audit in comparison to the expected pay back should be considered. Other factors that could be considered are;

- (a) Small dollar amounts remaining un-audited or unsettled;
- (b) Low dollar value of the contracts;
- (c) An approved accounting system;
- (d) The absence of significant audit issues and problems in previous pre-award, post award, or final audits; and
- (e) Contract ceilings below claimed indirect rates.

In the absence of an audit on a cost reimbursement contract, the CO and service/product team or program office may conduct a thorough review of a contractor's invoices to ensure that all items included are allowable and request a DCAA or DACO rate verification of the contractor's indirect rates to make a determination regarding the indirect and direct rates. FAA may audit contractor records of actual costs or records of cost or pricing data when the information relates to the contract price. Audits do not apply to commercial-off-the-shelf (COTS) procurements. An audit clause is advised for placement in all negotiated contracts except purchase card purchases and purchase card checks. In cost reimbursement, incentive, time-and-material, labor hours, and price redeterminable contracts, the audit clause gives FAA the right to examine and audit information and accounting practices sufficient to reflect costs claimed or anticipated to be incurred in performance of the contract. Under contracts for which cost or pricing data are required, FAA's right to examine and audit extends to data (including computations and projections) that is necessary for adequate evaluation of the cost or pricing data.

(3) Retention of records by the contractor is required for three years from final payment. This does not apply to COTS procurements. Records of terminated contracts must be kept for three years after final settlement, and records of contracts involved in a dispute must be available as long as the dispute continues. Failure to keep records as required by a contract may affect a contractor's right to receive payment.

(4) If FAA or its representative is not allowed to audit the contractor's records, the CO may deny contract award or payments.

*g. Defective Pricing.*

(1) Defective cost and pricing data is data which was provided to FAA in support of a proposal and which was not current, accurate, or complete. It may only occur when cost

and pricing data is provided. If, before agreement in price, the CO learns that any cost or pricing data the contractor provided are inaccurate, incomplete, or not current, the contractor must be notified immediately to determine if the defective data increase or decrease the contract price. The CO must then negotiate using any new data submitted or making allowance for the incorrect data.

(2) If, after award, cost or pricing data are found to be inaccurate, incomplete, or noncurrent as of the date of agreement, the CO should give the contractor an opportunity to support the accuracy, completeness, and currency of the questioned data. In addition, the CO may obtain an audit to evaluate the accuracy, completeness, and currency of the data. The contractor should reimburse FAA for any payments issued based on defective cost or pricing data during the contract period. The reimbursement should include the amount identified by the CO including profit or fee and interest accrued from the date of the payment. If defective pricing is determined to exist, this fact should be noted in future past performance evaluations.

(3) If a contractor and subcontractor submitted cost or pricing data, the CO has the right, under the clause prescribed in the contract to reduce the contract price if it significantly increased due to contractor submitted defective data. This right applies whether the data supported subcontractor cost estimates or firm agreements between subcontractors and contractors. In order to afford an opportunity for corrective action, the CO should give the contractor reasonable advanced notice before determining to reduce the contract price when:

(a) A contractor includes defective subcontract data in arriving at the price but later awards the subcontract to a lower priced subcontractor (or does not subcontract for work). Any adjustment in the contract price due to defective subcontract data is limited to the difference, plus applicable indirect cost and profit/fee, between the subcontract price used for pricing the contract and either the actual subcontract or the actual cost to the contractor.

(b) Under cost-reimbursement contracts and fixed price incentive contracts, payments to subcontracts that are higher than they would be had there been no defective subcontractor cost or pricing data will be the basis for disallowance or non-recognition of costs.

#### *h. Profit/Fee Analysis.*

(1) When price analysis techniques are sufficient to ensure a fair and reasonable price, analysis of profit/fee is not appropriate.

(2) When cost analysis is required for price negotiation, profit/fee must be analyzed.

(a) Profit/fee should be analyzed with the objective of rewarding contractors for:

(i) Financial and other risks they assume;

- (ii) Resources they use; and
- (iii) Organization, performance, and management capabilities they employ.

(b) Consideration should be given to the:

- (i) Ratio of indirect costs to direct costs;
- (ii) Extent of subcontracting;
- (iii) Complexity of materials requirements; and
- (iv) Commitment of capital investments to contract performance.

(3) For the purposes of establishing a negotiation position the CO may use some structured method (e.g. agency-mandated weighted guidelines) for determining the profit/fee appropriate for the work to be performed. The CO is encouraged to establish a structured mechanism under cost reimbursable contracts which relates performance to fee amounts earned.

i. *Cost Realism.*

(1) Cost realism means the costs in an offeror's proposal:

- (a) Are realistic for the work to be performed;
- (b) Reflect a clear understanding of the requirements; and
- (c) Are consistent with the various elements of the offeror's technical proposal.

The emphasis of a cost realism analysis is to determine whether costs may be overstated or understated. Cost realism helps to ascertain the potential risk to FAA as a result of the offeror being unable to meet contract requirements.

(2) Cost realism analysis is an objective process of identifying the specific elements of a cost estimate or a proposed price and comparing those elements against reliable and independent means of cost measurement. This analysis judges whether or not the estimates under analysis are verifiable, complete, and accurate, and whether or not the offeror's estimating methodology is logical, appropriate, and adequately explained. This verifies that the cost or prices proposed fairly represent the costs likely to be incurred for the proposed services under the offeror's technical and management approach.

(3) A practical example of the need for cost realism analysis is the tendency of some contractors to "buy-in" to a contract award. "Buying-in" refers to an offeror submitting an offer below anticipated contract costs. Contractors may "buy-in" for purely business

reasons or may expect to recover losses through an increase of the contract price after award or through receiving follow-on contracts at artificially high prices. Buying-in may decrease competition or result in poor contract performance. The CO should minimize the opportunity for buying-in through the following appropriate actions:

- (a) Use cost analysis in evaluating proposals for follow-on contracts and change orders;
- (b) Price contract options for additional quantities together with the firm contract quantity, that equal program requirements;
- (c) Develop an estimate of the proper price level or value of the supplies or services to be purchased; and
- (d) Verify that contract type and price are consistent with the uncertainty and risk to FAA and contractor while at the same time providing the contractor with the greatest incentive for efficient and economical performance.

(4) The foregoing does not mean that the CO should refuse to award a contract when a buy-in is apparent. The CO should evaluate the attendant risks of costs escalating out of control or the contractor not being able to successfully complete performance. FAA reserves the right to make an informed judgment and decide whether to award or not based on downstream consequences emanating from potential change orders, etc.

j. *Unbalanced Offer.* Offeror proposals should be analyzed to determine whether they are unbalanced with respect to prices or separately priced line items. This is particularly important when evaluating the prices for options in relationship to the prices for the basic requirements. An offer is mathematically unbalanced if it is based on prices which are significantly less than the cost of some contract line items and significantly overstated in relation to cost for others. An offer is materially unbalanced if it is mathematically unbalanced and if there is reasonable doubt that the offer would result in the lowest overall cost to FAA (even though it is the lowest evaluated offer); or the offer is so grossly unbalanced that its acceptance would be tantamount to allowing an advance payment. Offers that are materially unbalanced may be rejected.

Depending on the nature of the procurement, price analysis or cost analysis should be used in determining whether offers are materially unbalanced.

**New Content: Procurement Guidance:**

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

**Section 1 : Proposal Analysis**

a. *Cost or Pricing Data.*

(1) *Requirement Decision.* A Contracting Officer (CO) has discretion to require cost or pricing data to assure negotiated prices are fair and reasonable. Certified cost and pricing data must be requested *only* when the CO does not have reasonable assurance that costs or prices are fair and reasonable based on price analysis or other means of evaluation. When considering the extent to which cost and pricing data may be required, the CO should consider the cost and schedule burden on the contractor to provide the information.

(a) When the CO determines adequate price competition exists, certified cost or pricing data must not be requested.

(b) Adequate price competition may exist when:

(i) Two or more responsible offerors competing independently submit priced offers responsive to the Agency expressed requirement;

(ii) 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; or

(iii) Price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items purchased in comparable quantities, and under comparable terms and conditions under contracts that resulted from adequate price competition.

(c) 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 certified cost or pricing data or non-certified cost or pricing data to the extent necessary to support a determination of a fair and reasonable price.

(d) In situations where adequate price competition does not exist, the decision to require certified or non-certified cost or pricing data and the level of data required should be based on the specific circumstances of the procurement taking into account the factors for consideration described in Subparagraph (3), "Factors to Consider."

(2) *Types of Information and Evaluation Method.* The CO may require information to support proposal analysis in any of the following degrees of detail:

(a) No cost data, in which case a price analysis is conducted,

(b) Non-certified cost or pricing data, in which a price analysis and cost analysis appropriate to the data submitted are conducted; or

(c) Certified cost or pricing data, where the offeror certifies to the accuracy, completeness and currency of the data and both price and cost analyses are conducted.

(3) *Factors To Consider.*

(a) The CO has the flexibility to determine:

- (i) Whether or not to require non-certified cost or pricing data;
- (ii) To what degree or level of detail data should be requested; and
- (iii) Whether or not the data should be certified, except for situations where adequate price competition exists, where the CO must not require cost or pricing data.

(b) The CO may consider the following factors to determine the appropriate data requirement:

- (i) *Recent Pricing Data.* Availability of information on prices for the same or similar goods or services procured on a competitive basis.
- (ii) *Degree of Competition Attained.* Level to which competitive market forces can be expected to influence submission of reasonable prices.
- (iii) *Uncertainty of the Market Place.* How volatile market prices or technological changes may impact vendor prices or costs.
- (iv) *Availability of Independent Cost Estimate/Data.* 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.
- (v) *Technical Complexity of Procurement.* The degree to which developmental effort or technical complexity is inherent in the requirement.
- (vi) *Contract Type.* The degree to which the decision of contract type mitigates the risk to the agency.

(4) *Requirement for Certified Cost or Pricing Data.* When certified cost or pricing data are necessary, AMS Clauses 3.2.2.3-38, Requirements for Certified Cost or Pricing Data or Other Information, and 3.2.2.3-39, Requirements for Certified Cost or Pricing Data or

Other Information – Modifications, must be inserted in the SIR. The clauses require the contractor to submit the information contained in the Appendix "Instructions for Submitting Cost/Price Proposals When Certified Cost or Pricing Data are Required."

(5) *Requesting Information.* When requesting non-certified cost or pricing data, the information should be limited to the extent necessary to determine price reasonableness or the cost realism. The level of detail and format of the data requested will be determined by the CO. Generally this will be a modified version of information requested in subparagraph (4), "Requirement for Certified Cost or Pricing Data" above.

(6) *Subcontracts.* Contractors are required to submit certified cost or pricing data for proposed subcontracts or subcontract modifications only when necessary to determine the reasonableness of the proposed contract or subcontract price, including negotiated final pricing actions. The contractor is responsible for performing cost or price analysis when determining price reasonableness on subcontract proposals and for submitting the subcontract cost or pricing data if requested by the CO.

b. *Proposal Analysis.* The procurement team is responsible for evaluating proposals using the methods of price and cost analysis appropriate to the procurement. The CO is responsible for determining whether contract prices are fair and reasonable.

c. *Price Analysis.* Price analysis is a process of examining and analyzing a proposed price without evaluating separate cost elements and proposed profit/fee. Price analysis is the most commonly used method of proposal analysis and should be performed on all contractor proposals. Even when cost analysis is performed to evaluate individual cost elements of a contractor's proposal, some form of price analysis is needed to ensure that the proposed price is fair and reasonable. There are several techniques that may be used in performing price analysis:

(1) Comparison of proposed prices received in response to the screening information request.

(2) Comparison of prior proposed prices and contract prices with current proposed prices for the same or similar end items and services in comparable quantities.

(3) Application of rough yardsticks (such as dollars per pound or per horsepower, or other units) to highlight significant inconsistencies that warrant additional pricing inquiry.

(4) Comparison with competitive published catalogs or lists, published market prices or commodities, similar indexes, and discount or rebate arrangements.

(5) Comparison of proposed prices with independent cost estimates.

(6) Ascertaining that the price is set by law or regulation.

d. *Cost Analysis.*

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(1) Cost analysis is the review and evaluation of the separate cost elements and proposed profit/fee of an offeror's proposal. The CO will determine whether cost analysis is appropriate. Cost analysis is not required to evaluate established catalog or market prices, prices set by law or regulation, and commercial items. If there are significant disparities in proposed prices, a limited form of cost analysis may be used to investigate the cause of the disparities. Cost analysis involves examining data submitted by the contractor and the judgmental factors applied in projecting estimated costs. Cost analysis also includes:

- (a) Verification that the contractor's cost submissions are in accordance with disclosed cost accounting procedures;
- (b) Comparisons with previous costs; and
- (c) Forecasts of future costs based on historical cost experience.

(2) Cost analysis is appropriate when factors affecting the procurement will not ensure a fair and reasonable price based on price analysis alone, and/or the agency needs an understanding of the cost buildup of the proposal to verify cost realism and reasonableness. The data required to perform the cost analysis should be limited to those cost elements that are necessary to ensure a fair and reasonable price determination.

(3) Cost analysis involves the following techniques and procedures:

- (a) Verification of cost or pricing data and evaluation of cost elements.
- (b) Evaluating the effect of the offeror's current practices on future costs.
- (c) Comparison of the costs proposed by the offeror with historical and actual costs, and previous cost estimates for the same or similar items.
- (d) Analysis of the contractor's evaluation in determining the reasonableness of the subcontract costs.
- (e) Verification of the offeror's proposed cost to ensure that it reflects cost realism and reasonableness.
- (f) Review to determine whether any cost or pricing data that is necessary to make the contractor's proposal accurate, complete, and current has been submitted or identified in writing.

*e. Field Pricing Support.*

(1) Field pricing support is independent support intended to give the CO a detailed analysis report of the contractor's cost proposal. The field pricing support personnel

include, but are not limited to, COs, contract auditors, price analysts, quality assurance personnel, and engineers.

(2) The CO may request field pricing support when such support is deemed necessary before negotiating any contracts or modifications. Methods of field pricing support may include:

- (a) Rate verifications;
- (b) Third party audit;
- (c) Estimating system audit; and
- (d) Proposal analysis.

*f. Pre-and post-award audits.*

(1) Program offices, through the CO, must request pre-award or post-award Defense Contract Audit Agency (DCAA) audits as appropriate on all cost reimbursement contracts estimated to exceed \$100 million (including all options). In addition, DCAA audits must also be performed on at least 15% of all cost reimbursement contracts under \$100 million. At the discretion of the CO, audits may also be performed on other types of contracts. Lines of business will fund required pre- and post award audits and will include an estimate for the cost of the audits in the Acquisition Program Baseline. The Implementation Strategy and Planning Document will also address the approach, responsible organizations, and activities for obtaining audits. Individual contracting offices will be responsible for the managing and tracking of these audits. The final decision concerning which contracts under \$100 million will be audited will rest with the Chief of the Contracting Office (COCO). Final audits are addressed as part of the contract closeout process in T3.10.1A.11.

(2) COs are encouraged to use good business judgment consistent with applicable AMS guidance in deciding whether to obtain such audits. If a CO decides not to obtain such an audit, the file must be documented with a rational basis as to why the audit was not obtained. The cost of the audit in comparison to the expected payback must be considered.

*g. Defective Pricing.*

(1) Defective certified cost or pricing data is data which was provided to FAA in support of a proposal and which was not current, accurate, or complete. It may only occur when certified cost or pricing data is provided. If, before agreement in price, the CO learns that any certified cost or pricing data the contractor provided are inaccurate, incomplete, or not current, the contractor must be notified immediately to determine if the defective data increase or decrease the contract price. The CO must then negotiate using any new data submitted or making allowance for the incorrect data.

(2) If, after award, certified cost or pricing data are found to be inaccurate, incomplete, or noncurrent as of the date of agreement, the CO should give the contractor an opportunity to support the accuracy, completeness, and currency of the questioned data. In addition, the CO may obtain an audit to evaluate the accuracy, completeness, and currency of the data. The contractor should reimburse FAA for any payments issued based on defective cost or pricing data during the contract period. The reimbursement should include the amount identified by the CO including profit or fee and interest accrued from the date of the payment. If defective pricing is determined to exist, this fact should be noted in future past performance evaluations.

(3) If a contractor and subcontractor submitted certified cost or pricing data, the CO has the right, under the clause prescribed in the contract to reduce the contract price if it significantly increased due to contractor submitted defective data. This right applies whether the data supported subcontractor cost estimates or firm agreements between subcontractors and contractors. In order to afford an opportunity for corrective action, the CO should give the contractor reasonable advanced notice before determining to reduce the contract price when:

(a) A contractor includes defective subcontract data in arriving at the price but later awards the subcontract to a lower priced subcontractor (or does not subcontract for work). Any adjustment in the contract price due to defective subcontract data is limited to the difference, plus applicable indirect cost and profit/fee, between the subcontract price used for pricing the contract and either the actual subcontract or the actual cost to the contractor.

(b) Under cost-reimbursement contracts and fixed price incentive contracts, payments to subcontracts that are higher than they would be had there been no defective subcontractor cost or pricing data will be the basis for disallowance or non-recognition of costs.

#### *h. Profit/Fee Analysis.*

(1) When price analysis techniques are sufficient to ensure a fair and reasonable price, analysis of profit/fee is not appropriate.

(2) When cost analysis is required for price negotiation, profit/fee must be analyzed.

(a) Profit/fee should be analyzed with the objective of rewarding contractors for:

(i) Financial and other risks they assume;

(ii) Resources they use; and

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(b) Consideration should be given to the:

- (i) Ratio of indirect costs to direct costs;
- (ii) Extent of subcontracting;
- (iii) Complexity of materials requirements; and
- (iv) Commitment of capital investments to contract performance.

(3) For the purposes of establishing a negotiation position the CO may use some structured method (e.g. agency-mandated weighted guidelines) for determining the profit/fee appropriate for the work to be performed. The CO is encouraged to establish a structured mechanism under cost reimbursable contracts which relates performance to fee amounts earned.

i. *Cost Realism.*

(1) Cost realism means the costs in an offeror's proposal:

- (a) Are realistic for the work to be performed;
- (b) Reflect a clear understanding of the requirements; and
- (c) Are consistent with the various elements of the offeror's technical proposal.

The emphasis of a cost realism analysis is to determine whether costs may be overstated or understated. Cost realism helps to ascertain the potential risk to FAA as a result of the offeror being unable to meet contract requirements.

(2) Cost realism analysis is an objective process of identifying the specific elements of a cost estimate or a proposed price and comparing those elements against reliable and independent means of cost measurement. This analysis judges whether or not the estimates under analysis are verifiable, complete, and accurate, and whether or not the offeror's estimating methodology is logical, appropriate, and adequately explained. This verifies that the cost or prices proposed fairly represent the costs likely to be incurred for the proposed services under the offeror's technical and management approach.

(3) A practical example of the need for cost realism analysis is the tendency of some contractors to "buy-in" to a contract award. "Buying-in" refers to an offeror submitting an offer below anticipated contract costs. Contractors may "buy-in" for purely business reasons or may expect to recover losses through an increase of the contract price after award or through receiving follow-on contracts at artificially high prices. Buying-in may decrease competition or result in poor contract performance. The CO should minimize the opportunity for buying-in through the following appropriate actions:

- (a) Use cost analysis in evaluating proposals for follow-on contracts and change orders;
- (b) Price contract options for additional quantities together with the firm contract quantity, that equal program requirements;
- (c) Develop an estimate of the proper price level or value of the supplies or services to be purchased; and
- (d) Verify that contract type and price are consistent with the uncertainty and risk to FAA and contractor while at the same time providing the contractor with the greatest incentive for efficient and economical performance.

(4) The foregoing does not mean that the CO should refuse to award a contract when a buy-in is apparent. The CO should evaluate the attendant risks of costs escalating out of control or the contractor not being able to successfully complete performance. FAA reserves the right to make an informed judgment and decide whether to award or not based on downstream consequences emanating from potential change orders, etc.

j. *Unbalanced Offer.* Offeror proposals should be analyzed to determine whether they are unbalanced with respect to prices or separately priced line items. This is particularly important when evaluating the prices for options in relationship to the prices for the basic requirements. An offer is mathematically unbalanced if it is based on prices which are significantly less than the cost of some contract line items and significantly overstated in relation to cost for others. An offer is materially unbalanced if it is mathematically unbalanced and if there is reasonable doubt that the offer would result in the lowest overall cost to FAA (even though it is the lowest evaluated offer); or the offer is so grossly unbalanced that its acceptance would be tantamount to allowing an advance payment. Offers that are materially unbalanced may be rejected.

Depending on the nature of the procurement, price analysis or cost analysis should be used in determining whether offers are materially unbalanced.

**Red Line Content: Procurement Guidance:**

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

**Section 1 : Proposal Analysis**

a. *Cost ~~and~~ or Pricing Data.*

(1) *Requirement Decision.* A Contracting Officer (CO) has ~~the~~ discretion to require cost ~~and~~ or pricing data to assure ~~that~~ negotiated prices are fair and reasonable. - Certified Cost ~~cost~~ and pricing data ~~should~~ must be requested ~~ONLY~~ only when the CO does not have reasonable assurance that costs or prices are fair and reasonable based on price analysis or other means of evaluation. - When considering the extent to which cost and

pricing data may be required, the CO should consider the cost and schedule burden on the contractor to provide the information.

(a) When the CO determines adequate price competition exists, ~~cost~~certified and cost or pricing data ~~should~~ must not be requested.

(b) Adequate price competition may exist when:

(i) Two or more responsible offerors competing independently submit priced offers responsive to the Agency expressed requirement;

(ii) 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; or

(iii) Price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items purchased in comparable quantities, and under comparable terms and conditions under contracts that resulted from adequate price competition.

(c) 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~~certified and cost or price pricing data or ~~information other than~~ non-certified cost ~~and or~~ price pricing data to the extent necessary to support a determination of a fair and reasonable price.

(d) In situations where adequate price competition does not exist, the decision to require ~~cost~~certified and or non-certified cost or pricing data and the level of data required should be based on the specific circumstances of the procurement taking into account the factors for consideration described in Subparagraph (3), "Factors to Consider."

(2) *Types of Information and Evaluation Method.* The CO may require information to support proposal analysis in any of the following degrees of detail:

(a) No cost data, in which case a price analysis is conducted,

(b) ~~Information other than~~ Non-certified cost ~~and or~~ pricing data, in which a price analysis and cost analysis appropriate to the data submitted are conducted; or

(c) ~~Cost~~Certified and cost or pricing data, where the offeror certifies to the accuracy, completeness and currency of the data and both price and cost analyses are conducted.

(3) *Factors To Consider.*

(a) The CO has the flexibility to determine:

- (i) Whether or not to require ~~cost~~non-certified and cost or pricing data;
- (ii) To what degree or level of detail data should be requested; and
- (iii) Whether or not the data should be certified, except for situations where adequate price competition exists, where the CO must not require cost or pricing data.

(b) The CO may consider the following factors to determine the appropriate data requirement:

- (i) *Recent ~~Price~~Pricing Data.* Availability of information on prices for the same or similar goods or services procured on a competitive basis.
- (ii) *Degree of Competition Attained.* Level to which competitive market forces can be expected to influence submission of reasonable prices.
- (iii) *Uncertainty of the Market Place.* How volatile market prices or technological changes may impact vendor prices or costs.
- (iv) *Availability of Independent Cost Estimate/Data.* 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.
- (v) *Technical Complexity of Procurement.* The degree to which developmental effort or technical complexity is inherent in the requirement.
- (vi) *Contract Type.* The degree to which the decision of contract type mitigates the risk to the agency.

(4) *Requirement for ~~Cost~~Certified and Cost or Price Pricing Data.* When ~~cost~~certified and cost or pricing data are necessary, AMS Clauses 3.2.2.3-38, Requirements for Certified Cost or Pricing Data or Other Information, and 3.2.2.3-39, Requirements for Certified Cost or Pricing Data or Other Information – Modifications, must be inserted in the SIR. The clauses require the contractor to submit the information contained in the

Appendix "Instructions for Submitting Cost/Price Proposals When Certified Cost or Pricing Data are Required."

(5) *Requesting Information.* When requesting ~~information other than~~ non-certified cost or pricing data, the information should be limited to the extent necessary to determine price reasonableness or the cost realism. The level of detail and format of the data requested will be determined by the CO. Generally this will be a modified version of information requested in subparagraph (4), "Requirement for ~~Cost~~Certified and Cost or Pricing Data" above.

(6) *Subcontracts.* Contractors are required to submit certified cost or pricing data for proposed subcontracts or subcontract modifications only when necessary to determine the reasonableness of the proposed contract or subcontract price, including negotiated final pricing actions. The contractor is responsible for performing cost or price analysis when determining price reasonableness on subcontract proposals and for submitting the subcontract cost or pricing data if requested by the CO.

b. *Proposal Analysis.* The procurement team is responsible for evaluating proposals using the methods of price and cost analysis appropriate to the procurement. - - The CO is responsible for determining whether contract prices are fair and reasonable.

c. *Price Analysis.* Price analysis is a process of examining and analyzing a proposed price without evaluating separate cost elements and proposed profit/fee. Price analysis is the most commonly used method of proposal analysis and should be performed on all contractor proposals. Even when cost analysis is performed to evaluate individual cost elements of a contractor's proposal, some form of price analysis is needed to ensure that the proposed price is fair and reasonable. There are several techniques that may be used in performing price analysis:

(1) Comparison of proposed prices received in response to the screening information request.

(2) Comparison of prior proposed prices and contract prices with current proposed prices for the same or similar end items and services in comparable quantities.

(3) Application of rough yardsticks (such as dollars per pound or per horsepower, or other units) to highlight significant inconsistencies that warrant additional pricing inquiry.

(4) Comparison with competitive published catalogs or lists, published market prices or commodities, similar indexes, and discount or rebate arrangements.

(5) Comparison of proposed prices with independent cost estimates.

(6) Ascertaining that the price is set by law or regulation.

d. *Cost Analysis.*

(1) Cost analysis is the review and evaluation of the separate cost elements and proposed profit/fee of an offeror's proposal. The CO will determine whether cost analysis is appropriate. Cost analysis is not required to evaluate established catalog or market prices, prices set by law or regulation, and commercial items. If there are significant disparities in proposed prices, a limited form of cost analysis may be used to investigate the cause of the disparities. Cost analysis involves examining data submitted by the contractor and the judgmental factors applied in projecting estimated costs. Cost analysis also includes:

- (a) Verification that the contractor's cost submissions are in accordance with disclosed cost accounting procedures;
- (b) Comparisons with previous costs; and
- (c) Forecasts of future costs based on historical cost experience.

(2) Cost analysis is appropriate when factors affecting the procurement will not ensure a fair and reasonable price based on price analysis alone, and/or the agency needs an understanding of the cost buildup of the proposal to verify cost realism and reasonableness. The data required to perform the cost analysis should be limited to those cost elements that are necessary to ensure a fair and reasonable price determination.

(3) Cost analysis involves the following techniques and procedures:

- (a) Verification of cost or pricing data and evaluation of cost elements.
- (b) Evaluating the effect of the offeror's current practices on future costs.
- (c) Comparison of the costs proposed by the offeror with historical and actual costs, and previous cost estimates for the same or similar items.
- (d) Analysis of the contractor's evaluation in determining the reasonableness of the subcontract costs.
- (e) Verification of the offeror's proposed cost to ensure that it reflects cost realism and reasonableness.
- (f) Review to determine whether any cost or pricing data that is necessary to make the contractor's proposal accurate, complete, and current has been submitted or identified in writing.

*e. Field Pricing Support.*

(1) Field pricing support is independent support intended to give the CO a detailed analysis report of the contractor's cost proposal. The field pricing support personnel

include, but are not limited to, COs, contract auditors, price analysts, quality assurance personnel, and engineers.

(2) The CO may request field pricing support when such support is deemed necessary before negotiating any contracts or modifications. Methods of field pricing support may include:

- (a) Rate verifications;
- (b) Third party audit;
- (c) Estimating system audit; and
- (d) Proposal analysis.

f. Audit**Pre-and post-award audits.**

(1) ~~Service/product teams and program~~**Program** offices, through the CO, must request **pre-award or post-award** Defense Contract Audit Agency (DCAA) audits **as appropriate** on all cost reimbursement contracts estimated to exceed \$100 million (including all options).- - In addition, DCAA audits must also be performed on at least 15% of all cost reimbursement contracts under \$100 million.- - At the discretion of the CO, audits may also be performed on other types of contracts. Lines of business will fund required pre- and post award audits and will include an estimate for the cost of the audits in the **Acquisition** Program Baseline.- - The Implementation Strategy and Planning ~~document~~**Document** will also address the approach, responsible organizations, and activities for obtaining audits.- - Individual contracting offices will be responsible for the managing and tracking of these audits.- - The final decision concerning which contracts under \$100 million will be audited will rest with the Chief of the Contracting Office (COCO). **Final audits are addressed as part of the contract closeout process in T3.10.1A.11.**

(2) COs are encouraged to use good business ~~judgments~~**judgment consistent with applicable AMS guidance** in deciding whether to obtain **such** audits.- If ~~the~~**a** CO decides not to obtain **such** an audit, the file ~~should~~**must** be documented with ~~the~~**a** rational basis as to why the audit was not obtained.- The cost of ~~an~~**the** audit in comparison to the expected ~~pay back should be considered.~~— Other factors that could be considered are: (a) ~~Small dollar amounts remaining un-audited or unsettled;~~ (b) ~~Low dollar value of the contracts;~~ (c) ~~An approved accounting system;~~ (d) ~~The absence of significant audit issues and problems in previous pre-award, post award, or final audits;~~ and (e) ~~Contract ceilings below claimed indirect rates. In the absence of an audit on a cost reimbursement contract, the CO and service/product team or program office may conduct a thorough review of a contractor's invoices to ensure that all items included are allowable and request a DCAA or DACO rate verification of the contractor's indirect rates to make a determination regarding the indirect and direct rates. FAA may audit contractor records of actual costs or records of cost or pricing data when the information relates to the contract~~

~~price. Audits do not apply to commercial off the shelf (COTS) procurements. An audit clause is advised for placement in all negotiated contracts except purchase card purchases and purchase card checks. In cost reimbursement, incentive, time and material, labor hours, and price redeterminable contracts, the audit clause gives FAA the right to examine and audit information and accounting practices sufficient to reflect costs claimed or anticipated to be incurred in performance of the contract. Under contracts for which cost or pricing data are required, FAA's right to examine and audit extends to data (including computations and projections) that is necessary for adequate evaluation of the cost or pricing data. (3) Retention of records by the contractor is required for three years from final payment. This does not apply to COTS procurements. Records of terminated contracts must be kept for three years **payback** after final settlement, and records of contracts involved in a dispute must be available as long as the dispute continues. Failure to keep records as required by a contract may affect a contractor's right to receive payment. (4) If FAA or its representative is not allowed to audit the contractor's records, the CO may deny contract award or payments **considered**.~~

*g. Defective Pricing.*

(1) Defective ~~cost~~ **certified and cost or** pricing data is data which was provided to FAA in support of a proposal and which was not current, accurate, or complete. It may only occur when ~~cost~~ **certified and cost or** pricing data is provided. If, before agreement in price, the CO learns that any **certified** cost or pricing data the contractor provided are inaccurate, incomplete, or not current, the contractor must be notified immediately to determine if the defective data increase or decrease the contract price. The CO must then negotiate using any new data submitted or making allowance for the incorrect data.

(2) If, after award, **certified** cost or pricing data are found to be inaccurate, incomplete, or noncurrent as of the date of agreement, the CO should give the contractor an opportunity to support the accuracy, completeness, and currency of the questioned data. In addition, the CO may obtain an audit to evaluate the accuracy, completeness, and currency of the data. The contractor should reimburse FAA for any payments issued based on defective cost or pricing data during the contract period. The reimbursement should include the amount identified by the CO including profit or fee and interest accrued from the date of the payment. If defective pricing is determined to exist, this fact should be noted in future past performance evaluations.

(3) If a contractor and subcontractor submitted **certified** cost or pricing data, the CO has the right, under the clause prescribed in the contract to reduce the contract price if it significantly increased due to contractor submitted defective data. This right applies whether the data supported subcontractor cost estimates or firm agreements between subcontractors and contractors. In order to afford an opportunity for corrective action, the CO should give the contractor reasonable advanced notice before determining to reduce the contract price when:

- (a) A contractor includes defective subcontract data in arriving at the price but later awards the subcontract to a lower priced subcontractor (or does not

subcontract for work). Any adjustment in the contract price due to defective subcontract data is limited to the difference, plus applicable indirect cost and profit/fee, between the subcontract price used for pricing the contract and either the actual subcontract or the actual cost to the contractor.

(b) Under cost-reimbursement contracts and fixed price incentive contracts, payments to subcontracts that are higher than they would be had there been no defective subcontractor cost or pricing data will be the basis for disallowance or non-recognition of costs.

h. *Profit/Fee Analysis.*

(1) When price analysis techniques are sufficient to ensure a fair and reasonable price, analysis of profit/fee is not appropriate.

(2) When cost analysis is required for price negotiation, profit/fee must be analyzed.

(a) Profit/fee should be analyzed with the objective of rewarding contractors for:

- (i) Financial and other risks they assume;
- (ii) Resources they use; and
- (iii) Organization, performance, and management capabilities they employ.

(b) Consideration should be given to the:

- (i) Ratio of indirect costs to direct costs;
- (ii) Extent of subcontracting;
- (iii) Complexity of materials requirements; and
- (iv) Commitment of capital investments to contract performance.

(3) For the purposes of establishing a negotiation position the CO may use some structured method (e.g. agency-mandated weighted guidelines) for determining the profit/fee appropriate for the work to be performed. The CO is encouraged to establish a structured mechanism under cost reimbursable contracts which relates performance to fee amounts earned.

i. *Cost Realism.*

(1) Cost realism means the costs in an offeror's proposal:

- (a) Are realistic for the work to be performed;
- (b) Reflect a clear understanding of the requirements; and
- (c) Are consistent with the various elements of the offeror's technical proposal.

The emphasis of a cost realism analysis is to determine whether costs may be overstated or understated. Cost realism helps to ascertain the potential risk to FAA as a result of the offeror being unable to meet contract requirements.

(2) Cost realism analysis is an objective process of identifying the specific elements of a cost estimate or a proposed price and comparing those elements against reliable and independent means of cost measurement. This analysis judges whether or not the estimates under analysis are verifiable, complete, and accurate, and whether or not the offeror's estimating methodology is logical, appropriate, and adequately explained. This verifies that the cost or prices proposed fairly represent the costs likely to be incurred for the proposed services under the offeror's technical and management approach.

(3) A practical example of the need for cost realism analysis is the tendency of some contractors to "buy-in" to a contract award. "Buying-in" refers to an offeror submitting an offer below anticipated contract costs. Contractors may "buy-in" for purely business reasons or may expect to recover losses through an increase of the contract price after award or through receiving follow-on contracts at artificially high prices. Buying-in may decrease competition or result in poor contract performance. The CO should minimize the opportunity for buying-in through the following appropriate actions:

- (a) Use cost analysis in evaluating proposals for follow-on contracts and change orders;
- (b) Price contract options for additional quantities together with the firm contract quantity, that equal program requirements;
- (c) Develop an estimate of the proper price level or value of the supplies or services to be purchased; and
- (d) Verify that contract type and price are consistent with the uncertainty and risk to FAA and contractor while at the same time providing the contractor with the greatest incentive for efficient and economical performance.

(4) The foregoing does not mean that the CO should refuse to award a contract when a buy-in is apparent. The CO should evaluate the attendant risks of costs escalating out of control or the contractor not being able to successfully complete performance. FAA reserves the right to make an informed judgment and decide whether to award or not based on downstream consequences emanating from potential change orders, etc.

j. *Unbalanced Offer*. Offeror proposals should be analyzed to determine whether they are unbalanced with respect to prices or separately priced line items. This is particularly important when evaluating the prices for options in relationship to the prices for the basic requirements. An offer is mathematically unbalanced if it is based on prices which are significantly less than the cost of some contract line items and significantly overstated in relation to cost for others. An offer is materially unbalanced if it is mathematically unbalanced and if there is reasonable doubt that the offer would result in the lowest overall cost to FAA (even though it is the lowest evaluated offer); or the offer is so grossly unbalanced that its acceptance would be tantamount to allowing an advance payment. Offers that are materially unbalanced may be rejected.

Depending on the nature of the procurement, price analysis or cost analysis should be used in determining whether offers are materially unbalanced.

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### **Section 1 : Appendix 1- Instructions for Submitting Cost/Price Proposals**

**Old Content:** Procurement Guidance:

*T3.2.3 - Cost and Price Methodology*

*Appendix*

**Section 1 : Appendix 1- Instructions for Submitting Cost/Price Proposals**

## **INSTRUCTION FOR SUBMITTING COST/PRICE PROPOSALS**

### **WHEN COST OR PRICING DATA ARE REQUIRED**

Note 1. There is a clear distinction between submitting cost or pricing data and merely making available books, records, and other documents without identification. The requirement for submission of cost or pricing data is met when all accurate cost or pricing data reasonably available to the offeror have been submitted, either actually or by specific identification, to the Contracting Officer (CO) or an authorized representative. As later information comes into the offeror's possession, it should be submitted promptly to the CO in a manner that clearly shows how the information relates to the offeror's price proposal. The requirement for submission of cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable.

Note 2. By submitting the offeror's proposal, the offeror grants the CO or an authorized representative the right to examine records that formed the basis for the pricing proposal. That examination can take place at any time before award. It may include those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price.

## **I. GENERAL INSTRUCTIONS**

A. The offeror must provide the following information on the first page of the offeror's pricing proposal:

- (1) Solicitation, contract, and/or modification number;
- (2) Name and address of offeror;
- (3) Name and telephone number of point of contact;
- (4) Name of contract administration office (if available);
- (5) Type of contract action (that is, new contract, change order, price revision/redetermination, letter contract, unpriced order, or other);
- (6) Proposed cost; profit or fee; and total;
- (7) Whether the offeror will require the use of Government property in the performance of the contract, and, if so, what property;
- (8) Whether the offeror's organization is subject to cost accounting standards; whether the offeror's organization has submitted a CASB Disclosure Statement, and if it has been determined adequate; whether the offeror have been notified that the offeror are or may be in noncompliance with the offeror's Disclosure Statement or CAS, and, if yes, an explanation; whether any aspect of this proposal is inconsistent with the offeror's disclosed practices or applicable CAS, and, if so, an explanation; and whether the proposal is consistent with the offeror's established estimating and accounting principles and procedures and FAA Cost Principles, and, if not, an explanation;
- (9) The following statement:  
  
"This proposal reflects our estimates and/or actual costs as of this date and conforms to the instructions contained in the Appendix to Toolbox Section 3.2.3, 'Cost and Price Methodology.'" By submitting this proposal, we grant the CO and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price."
- (10) Date of submission; and
- (11) Name, title and signature of authorized representative.

B. In submitting the offeror's proposal, the offeror must include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. In addition, the offeror must annotate any future additions and/or revisions, up to the

date of agreement on price, or an earlier date agreed upon by the parties, on a supplemental index.

C. As part of the specific information required, the offeror must submit, with the offeror's proposal, cost or pricing data (that is, data that are verifiable and factual and otherwise as defined in FAA AMS Appendix C. The offeror must clearly identify on the offeror's cover sheet that cost or pricing data are included as part of the proposal. In addition, the offeror must submit with the offeror's proposal any information reasonably required to explain the offeror's estimating process, including

(1) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and

(2) The nature and amount of any contingencies included in the proposed price.

D. The offeror must show the relationship between contract line item prices and the total contract price. The offeror must attach cost-element breakdowns for each proposed line item, using the appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of this table. The offeror must furnish supporting breakdowns for each cost element, consistent with the offeror's cost accounting system.

E. When more than one contract line item is proposed, the offeror must also provide summary total amounts covering all line items for each element of cost.

F. Whenever the offeror have incurred costs for work performed before submission of a proposal, the offeror must identify those costs in the offeror's cost/price proposal.

G. If the offeror has reached an agreement with Government representatives on use of forward pricing rates/factors, identify the agreement, include a copy, and describe its nature.

H. As soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal the offeror must submit a Certificate of Current Cost or Pricing Data as follows:

(1) Certificate

#### CERTIFICATE OF CURRENT COST OR PRICING DATA

This is to certify that, to the best of my knowledge and belief, the cost or pricing data submitted, either actually or by specific identification in writing, to the CO or to the CO's representative in support of [\*] are accurate, complete, and current as of [\*\*]. This certification includes the cost

or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

[Offeror insert the following information.]

Firm \_\_\_\_\_

Signature \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Date of execution [\*\*\* \_\_\_\_\_ ]

*\*Offeror identify the proposal, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g., SIR No.)*

*\*\* Offeror insert the day, month, and year when price negotiations were concluded and price agreement was reached or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.*

*\*\*\* Offeror insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.*

(End of certificate)

(2) The certificate does not constitute a representation as to the accuracy of the offeror's judgment on the estimate of future costs or projections. It applies to the data upon which the judgment or estimate was based. This distinction between fact and judgment should be clearly understood. If the offeror had information reasonably available at the time of agreement showing that the negotiated price was not based on accurate, complete, and current data, the offeror's responsibility is not limited by any lack of personal knowledge of the information on the part of its negotiators.

(3) The CO and offeror are encouraged to reach a prior agreement on criteria for establishing closing or cutoff dates when appropriate in order to minimize delays associated with proposal updates. Closing or cutoff dates should be included as part of the data submitted with the proposal and, before agreement on price, data should be updated by the offeror to the latest closing or cutoff dates for which the data are available. Use of cutoff dates coinciding with reports is acceptable, as certain data may not be reasonably available before normal periodic closing dates (e.g., actual indirect costs). Data within the offeror's or a subcontractor's organization on matters significant to offeror management and to FAA will be treated as reasonably available. What is significant depends upon the circumstances of each acquisition.

(4) Possession of a Certificate of Current Cost or Pricing Data is not a substitute for examining and analyzing the offeror's proposal.

(5) If cost or pricing data are requested by FAA and submitted by an offeror, but an exception is later found to apply, the data must not be considered cost or pricing data and must not be certified in accordance with this subsection.

## **II. COST ELEMENTS**

Depending on the offeror's system, the offeror must provide breakdowns for the following basic cost elements, as applicable:

A. Materials and services. Provide a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (vendor quotes, invoice prices, etc.). Include raw materials, parts, components, assemblies, and services to be produced or performed by others. For all items proposed, identify the item and show the source, quantity, and price. Conduct price analyses of all subcontractor proposals. Conduct cost analyses for all subcontracts when cost or pricing data are submitted by the subcontractor. Include these analyses as part of the offeror's own cost or pricing data submissions. Submit the subcontractor cost or pricing data as part of the offeror's own cost or pricing data as required in subparagraph IIA (2) below. These requirements also apply to all subcontractors if required to submit cost or pricing data.

(1) Adequate Price Competition. Provide data showing the degree of competition and the basis for establishing the source and reasonableness of price. For interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the offeror, explain the pricing method.

(2) All Other. Obtain cost or pricing data from prospective sources (i.e., adequate price competition, commercial items, prices set by law or regulation or waiver). Also provide data showing the basis for establishing source and reasonableness of price. In addition, provide a summary of the offeror's cost analysis and a copy of cost or pricing data submitted by the prospective source in support of each subcontract or purchase order that is the lower of either \$10,000,000 or more, or both more than the pertinent cost or pricing data threshold and more than 10 percent of the prime offeror's proposed price. The CO may require the offeror to submit cost or pricing data in support of proposals in lower amounts. Subcontractor cost or pricing data must be accurate, complete and current as of the date of final price agreement, or an earlier date agreed upon by the parties, given on the prime offeror's Certificate of Current Cost or Pricing Data. The prime offeror is responsible for updating a prospective subcontractor's data. For standard commercial items fabricated by the offeror that are generally stocked in inventory, provide a separate cost breakdown, if priced based on cost. For interorganizational transfers priced at cost, provide a separate breakdown of cost elements. Analyze the cost or pricing data and submit the results of the offeror's analysis of the prospective source's proposal. When submission of a prospective source's cost or pricing data is required as described in this paragraph, it must be included along with the offeror's own cost or pricing data

submission, as part of the offeror's own cost or pricing data. The offeror must also submit any other cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on that data.

B. Direct Labor. Provide a time-phased (e.g., monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates.

C. Indirect Costs. Indicate how the offeror have computed and applied the offeror's indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.

D. Other Costs. List all other costs not otherwise included in the categories described above (e.g., special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and Federal excise tax on finished articles) and provide bases for pricing.

E. Royalties. 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 the royalty is payable.
- (5) Brief description (including any part or model numbers of each contract item or component on which the royalty is payable).
- (6) Percentage or dollar rate of royalty per unit.
- (7) Unit price of contract item.
- (8) Number of units.
- (9) Total dollar amount of royalties.
- (10) If specifically requested by the CO, a copy of the current license agreement and identification of applicable claims of specific patents.

F. Facilities Capital Cost of Money. When the offeror elects to claim facilities capital cost of money as an allowable cost, the offeror must submit form "Contract Facilities Capital Cost of Money." (see Template 32 in the FAA Procurement Forms section of the Procurement Toolbox). The offeror must show the calculation of the proposed amount.

### III. FORMATS FOR SUBMISSION OF LINE ITEM SUMMARIES

#### A. New Contracts (including letter contracts)

(1)	(2)	(3)	(4)
COST ELEMENTS	PROPOSED CONTRACT ESTIMATE-TOTAL COST	PROPOSED CONTRACT ESTIMATE-UNIT COST	REFERENCE

#### Column Instruction

(1) Enter appropriate cost elements.

(2) Enter those necessary and reasonable costs that, in the offeror's judgment, will properly be incurred in efficient contract performance. When any of the costs in this column have already been incurred (e.g., under a letter contract), describe them on an attached supporting page. When preproduction or startup costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them.

(3) Optional, unless required by the CO.

(4) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

#### B. Change Orders, Modifications, and Claims.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
COST ELEMENTS	ESTIMATED COST OF ALL WORK COMPLETED	COST OF DELETED WORK ALREADY PERFORMED	NET COST TO BE DELETED	COST OF WORK ADDED	NET COST OF CHANGE	REFERENCE

#### Column Instructions

(1) Enter appropriate cost elements.

(2) Include the current estimates of what the cost would have been to complete the deleted work not yet performed (not the original proposal estimates), and the cost of deleted work already performed.

(3) Include the incurred cost of deleted work already performed, using actuals incurred if possible, or, if actuals are not available, estimates from the contractor's accounting records. Attach a detailed inventory of work, materials, parts, components, and hardware already purchased, manufactured, or performed and deleted by the change, indicating the cost and proposed disposition of each line item. Also, if the contractor desires to retain these items or any portion of them, indicate the amount offered for them.

(4) Enter the net cost to be deleted, which is the estimated cost of all deleted work less the cost of deleted work already performed. Column (2) minus Column (3) equals Column (4).

(5) Enter the contractor's estimate for cost of work added by the change. When nonrecurring costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them. When any of the costs in this column have already been incurred, describe them on an attached supporting schedule.

(6) Enter the net cost of change, which is the cost of work added, less the net cost to be deleted. Column (5) minus Column (4) equals Column (6). When this result is negative, place the amount in parentheses.

(7) Identify the attachment in which the information supporting the specific cost element may be found. (*Attach separate pages as necessary.*)

**New Content: Procurement Guidance:**

*T3.2.3 - Cost and Price Methodology*

*Appendix*

**Section 1 : Appendix - Instructions for Submitting Cost/Price Proposals**

**INSTRUCTION FOR SUBMITTING COST/PRICE PROPOSALS**

**WHEN CERTIFIED COST OR PRICING DATA ARE REQUIRED**

Note 1. 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 cost or pricing data reasonably available to the offeror have been submitted, either actually or by specific identification, to the Contracting Officer (CO) or an authorized representative. As later information comes into the offeror's possession, it should be submitted promptly to the CO in a manner that clearly shows how the information relates to the offeror's price proposal. The requirement for 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.

Note 2. By submitting the offeror's proposal, the offeror grants the CO or an authorized representative the right to examine records that formed the basis for the pricing proposal. That examination can take place at any time before award. It may include those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price.

## **I. GENERAL INSTRUCTIONS**

A. The offeror must provide the following information on the first page of the offeror's pricing proposal:

- (1) Solicitation, contract, and/or modification number;
- (2) Name and address of offeror;
- (3) Name and telephone number of point of contact;
- (4) Name of contract administration office (if available);
- (5) Type of contract action (that is, new contract, change order, price revision/redetermination, letter contract, unpriced order, or other);
- (6) Proposed cost; profit or fee; and total;
- (7) Whether the offeror will require the use of Government property in the performance of the contract, and, if so, what property;
- (8) Whether the offeror's organization is subject to cost accounting standards; whether the offeror's organization has submitted a CASB Disclosure Statement, and if it has been determined adequate; whether the offeror have been notified that the offeror are or may be in noncompliance with the offeror's Disclosure Statement or CAS, and, if yes, an explanation; whether any aspect of this proposal is inconsistent with the offeror's disclosed practices or applicable CAS, and, if so, an explanation; and whether the proposal is consistent with the offeror's established estimating and accounting principles and procedures and FAA Cost Principles, and, if not, an explanation;
- (9) The following statement:

"This proposal reflects our estimates and/or actual costs as of this date and conforms to the instructions contained in the Appendix to Toolbox Section 3.2.3, 'Cost and Price Methodology.'" By submitting this proposal, we grant the CO and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically

referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price."

(10) Date of submission; and

(11) Name, title and signature of authorized representative.

B. In submitting the offeror's proposal, the offeror must include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. In addition, the offeror must annotate any future additions and/or revisions, up to the date of agreement on price, or an earlier date agreed upon by the parties, on a supplemental index.

C. As part of the specific information required, the offeror must submit, with the offeror's proposal, certified cost or pricing data (that is, data that are verifiable and factual and otherwise as defined in FAA AMS Appendix C. The offeror must clearly identify on the offeror's cover sheet that certified cost or pricing data are included as part of the proposal. In addition, the offeror must submit with the offeror's proposal any information reasonably required to explain the offeror's estimating process, including

(1) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and

(2) The nature and amount of any contingencies included in the proposed price.

D. The offeror must show the relationship between contract line item prices and the total contract price. The offeror must attach cost-element breakdowns for each proposed line item, using the appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of this table. The offeror must furnish supporting breakdowns for each cost element, consistent with the offeror's cost accounting system.

E. When more than one contract line item is proposed, the offeror must also provide summary total amounts covering all line items for each element of cost.

F. Whenever the offeror have incurred costs for work performed before submission of a proposal, the offeror must identify those costs in the offeror's cost/price proposal.

G. If the offeror has reached an agreement with Government representatives on use of forward pricing rates/factors, identify the agreement, include a copy, and describe its nature.

H. As soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal the offeror must submit a Certificate of Current Cost or Pricing Data as follows:

(1) Certificate

CERTIFICATE OF CURRENT COST OR PRICING DATA

This is to certify that, to the best of my knowledge and belief, the cost or pricing data submitted, either actually or by specific identification in writing, to the CO or to the CO's representative in support of [\*] are accurate, complete, and current as of [\*\*]. This certification includes the cost or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

*[Offeror insert the following information.]*

Firm \_\_\_\_\_

Signature \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Date of execution [\*\*\*\_\_\_\_\_]

*\*Offeror identify the proposal, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g., SIR No.)*

*\*\* Offeror insert the day, month, and year when price negotiations were concluded and price agreement was reached or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.*

*\*\*\* Offeror insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.*

(End of certificate)

(2) The certificate does not constitute a representation as to the accuracy of the offeror's judgment on the estimate of future costs or projections. It applies to the data upon which the judgment or estimate was based. This distinction between fact and judgment should be clearly understood. If the offeror had information reasonably available at the time of agreement showing that the negotiated price was not based on accurate, complete, and current data, the offeror's responsibility is not limited by any lack of personal knowledge of the information on the part of its negotiators.

(3) The CO and offeror are encouraged to reach a prior agreement on criteria for establishing closing or cutoff dates when appropriate in order to minimize delays associated with proposal

updates. Closing or cutoff dates should be included as part of the data submitted with the proposal and, before agreement on price, data should be updated by the offeror to the latest closing or cutoff dates for which the data are available. Use of cutoff dates coinciding with reports is acceptable, as certain data may not be reasonably available before normal periodic closing dates (e.g., actual indirect costs). Data within the offeror's or a subcontractor's organization on matters significant to offeror management and to FAA will be treated as reasonably available. What is significant depends upon the circumstances of each acquisition.

(4) Possession of a Certificate of Current Cost or Pricing Data is not a substitute for examining and analyzing the offeror's proposal.

(5) If certified cost or pricing data are requested by FAA and submitted by an offeror, but an exception is later found to apply, the data must not be considered certified cost or pricing data and must not be certified in accordance with this subsection.

## **II. COST ELEMENTS**

Depending on the offeror's system, the offeror must provide breakdowns for the following basic cost elements, as applicable:

A. Materials and services. Provide a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (vendor quotes, invoice prices, etc.). Include raw materials, parts, components, assemblies, and services to be produced or performed by others. For all items proposed, identify the item and show the source, quantity, and price. Conduct price analyses of all subcontractor proposals. Conduct cost analyses for all subcontracts when certified cost or pricing data are submitted by the subcontractor. Include these analyses as part of the offeror's own certified cost or pricing data submissions. Submit the subcontractor certified cost or pricing data as part of the offeror's own certified cost or pricing data as required in subparagraph IIA (2) below. These requirements also apply to all subcontractors if required to submit certified cost or pricing data.

(1) Adequate Price Competition. Provide data showing the degree of competition and the basis for establishing the source and reasonableness of price. For interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the offeror, explain the pricing method.

(2) All Other. Obtain certified cost or pricing data from prospective sources (i.e., adequate price competition, commercial items, prices set by law or regulation or waiver). Also provide data showing the basis for establishing source and reasonableness of price. In addition, provide a summary of the offeror's cost analysis and a copy of certified cost or pricing data submitted by the prospective source in support of each subcontract or purchase order that is the lower of either \$10,000,000 or more, or both more than the pertinent certified cost or pricing data threshold and more than 10 percent of the prime offeror's proposed price. The CO may require the offeror to submit certified cost or pricing data in support of proposals in lower amounts. Subcontractor certified cost or pricing data must be accurate, complete and current as of the date of final price

agreement, or an earlier date agreed upon by the parties, given on the prime offeror's Certificate of Current Cost or Pricing Data. The prime offeror is responsible for updating a prospective subcontractor's data. For standard commercial items fabricated by the offeror that are generally stocked in inventory, provide a separate cost breakdown, if priced based on cost. For interorganizational transfers priced at cost, provide a separate breakdown of cost elements. Analyze the cost or pricing data and submit the results of the offeror's analysis of the prospective source's proposal. When submission of a prospective source's certified cost or pricing data is required as described in this paragraph, it must be included along with the offeror's own certified cost or pricing data submission, as part of the offeror's own certified cost or pricing data. The offeror must also submit any other certified cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on that data.

B. Direct Labor. Provide a time-phased (e.g., monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates.

C. Indirect Costs. Indicate how the offeror have computed and applied the offeror's indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.

D. Other Costs. List all other costs not otherwise included in the categories described above (e.g., special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and Federal excise tax on finished articles) and provide bases for pricing.

E. Royalties. 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 the royalty is payable.
- (5) Brief description (including any part or model numbers of each contract item or component on which the royalty is payable).
- (6) Percentage or dollar rate of royalty per unit.
- (7) Unit price of contract item.
- (8) Number of units.
- (9) Total dollar amount of royalties.

(10) If specifically requested by the CO, a copy of the current license agreement and identification of applicable claims of specific patents.

F. Facilities Capital Cost of Money. When the offeror elects to claim facilities capital cost of money as an allowable cost, the offeror must submit form "Contract Facilities Capital Cost of Money." (see Template 32 in the FAA Procurement Forms section of the Procurement Toolbox). The offeror must show the calculation of the proposed amount.

**III. FORMATS FOR SUBMISSION OF LINE ITEM SUMMARIES**

A. New Contracts (including letter contracts)

(1)	(2)	(3)	(4)
COST ELEMENTS	PROPOSED CONTRACT ESTIMATE-TOTAL COST	PROPOSED CONTRACT ESTIMATE-UNIT COST	REFERENCE

Column Instruction

- (1) Enter appropriate cost elements.
- (2) Enter those necessary and reasonable costs that, in the offeror’s judgment, will properly be incurred in efficient contract performance. When any of the costs in this column have already been incurred (e.g., under a letter contract), describe them on an attached supporting page. When preproduction or startup costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them.
- (3) Optional, unless required by the CO.
- (4) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

B. Change Orders, Modifications, and Claims.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
COST ELEMENTS	ESTIMATED COST OF ALL WORK	COST OF DELETED WORK	NET COST TO BE	COST OF WORK	NET COST OF	REFERENCE

	COMPLETED	ALREADY PERFORMED	DELETED	ADDED	CHANGE	

Column Instructions

- (1) Enter appropriate cost elements.
- (2) Include the current estimates of what the cost would have been to complete the deleted work not yet performed (not the original proposal estimates), and the cost of deleted work already performed.
- (3) Include the incurred cost of deleted work already performed, using actuals incurred if possible, or, if actuals are not available, estimates from the contractor’s accounting records. Attach a detailed inventory of work, materials, parts, components, and hardware already purchased, manufactured, or performed and deleted by the change, indicating the cost and proposed disposition of each line item. Also, if the contractor desires to retain these items or any portion of them, indicate the amount offered for them.
- (4) Enter the net cost to be deleted, which is the estimated cost of all deleted work less the cost of deleted work already performed. Column (2) minus Column (3) equals Column (4).
- (5) Enter the contractor’s estimate for cost of work added by the change. When nonrecurring costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them. When any of the costs in this column have already been incurred, describe them on an attached a supporting schedule.
- (6) Enter the net cost of change, which is the cost of work added, less the net cost to be deleted. Column (5) minus Column (4) equals Column (6). When this result is negative, place the amount in parentheses.
- (7) Identify the attachment in which the information supporting the specific cost element may be found. (*Attach separate pages as necessary.*)

**Red Line Content: Procurement Guidance:**

*T3.2.3 - Cost and Price Methodology*

*Appendix*

**Section 1 : Appendix 1- Instructions for Submitting Cost/Price Proposals**

**INSTRUCTION FOR SUBMITTING COST/PRICE PROPOSALS**

**WHEN CERTIFIED COST OR PRICING DATA ARE REQUIRED**

Note 1. 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 cost or pricing data

reasonably available to the offeror have been submitted, either actually or by specific identification, to the Contracting Officer (CO) or an authorized representative. As later information comes into the offeror's possession, it should be submitted promptly to the CO in a manner that clearly shows how the information relates to the offeror's price proposal. The requirement for 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.

Note 2. By submitting the offeror's proposal, the offeror grants the CO or an authorized representative the right to examine records that formed the basis for the pricing proposal. That examination can take place at any time before award. It may include those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price.

## **I. GENERAL INSTRUCTIONS**

A. The offeror must provide the following information on the first page of the offeror's pricing proposal:

- (1) Solicitation, contract, and/or modification number;
- (2) Name and address of offeror;
- (3) Name and telephone number of point of contact;
- (4) Name of contract administration office (if available);
- (5) Type of contract action (that is, new contract, change order, price revision/redetermination, letter contract, unpriced order, or other);
- (6) Proposed cost; profit or fee; and total;
- (7) Whether the offeror will require the use of Government property in the performance of the contract, and, if so, what property;
- (8) Whether the offeror's organization is subject to cost accounting standards; whether the offeror's organization has submitted a CASB Disclosure Statement, and if it has been determined adequate; whether the offeror have been notified that the offeror are or may be in noncompliance with the offeror's Disclosure Statement or CAS, and, if yes, an explanation; whether any aspect of this proposal is inconsistent with the offeror's disclosed practices or applicable CAS, and, if so, an explanation; and whether the proposal is consistent with the offeror's established estimating and accounting principles and procedures and FAA Cost Principles, and, if not, an explanation;
- (9) The following statement:

"This proposal reflects our estimates and/or actual costs as of this date and conforms to the instructions contained in the Appendix to Toolbox Section 3.2.3, 'Cost and Price Methodology.' By submitting this proposal, we grant the CO and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price."

(10) Date of submission; and

(11) Name, title and signature of authorized representative.

B. In submitting the offeror's proposal, the offeror must include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. In addition, the offeror must annotate any future additions and/or revisions, up to the date of agreement on price, or an earlier date agreed upon by the parties, on a supplemental index.

C. As part of the specific information required, the offeror must submit, with the offeror's proposal, **certified** cost or pricing data (that is, data that are verifiable and factual and otherwise as defined in FAA AMS Appendix C. The offeror must clearly identify on the offeror's cover sheet that **certified** cost or pricing data are included as part of the proposal. In addition, the offeror must submit with the offeror's proposal any information reasonably required to explain the offeror's estimating process, including

(1) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and

(2) The nature and amount of any contingencies included in the proposed price.

D. The offeror must show the relationship between contract line item prices and the total contract price. The offeror must attach cost-element breakdowns for each proposed line item, using the appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of this table. The offeror must furnish supporting breakdowns for each cost element, consistent with the offeror's cost accounting system.

E. When more than one contract line item is proposed, the offeror must also provide summary total amounts covering all line items for each element of cost.

F. Whenever the offeror have incurred costs for work performed before submission of a proposal, the offeror must identify those costs in the offeror's cost/price proposal.

G. If the offeror has reached an agreement with Government representatives on use of forward pricing rates/factors, identify the agreement, include a copy, and describe its nature.

H. As soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal the offeror must submit a Certificate of Current Cost or Pricing Data as follows:

(1) Certificate

CERTIFICATE OF CURRENT COST OR PRICING DATA

This is to certify that, to the best of my knowledge and belief, the cost or pricing data submitted, either actually or by specific identification in writing, to the CO or to the CO's representative in support of [\*] are accurate, complete, and current as of [\*\*]. This certification includes the cost or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

[Offeror insert the following information.]

Firm \_\_\_\_\_

Signature \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Date of execution [\*\*\* \_\_\_\_\_]

*\*Offeror identify the proposal, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g., SIR No.)*

*\*\* Offeror insert the day, month, and year when price negotiations were concluded and price agreement was reached or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.*

*\*\*\* Offeror insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.*

(End of certificate)

(2) The certificate does not constitute a representation as to the accuracy of the offeror's judgment on the estimate of future costs or projections. It applies to the data upon which the judgment or estimate was based. This distinction between fact and judgment should be clearly understood. If the offeror had information reasonably available at the time of agreement showing

that the negotiated price was not based on accurate, complete, and current data, the offeror's responsibility is not limited by any lack of personal knowledge of the information on the part of its negotiators.

(3) The CO and offeror are encouraged to reach a prior agreement on criteria for establishing closing or cutoff dates when appropriate in order to minimize delays associated with proposal updates. Closing or cutoff dates should be included as part of the data submitted with the proposal and, before agreement on price, data should be updated by the offeror to the latest closing or cutoff dates for which the data are available. Use of cutoff dates coinciding with reports is acceptable, as certain data may not be reasonably available before normal periodic closing dates (e.g., actual indirect costs). Data within the offeror's or a subcontractor's organization on matters significant to offeror management and to FAA will be treated as reasonably available. What is significant depends upon the circumstances of each acquisition.

(4) Possession of a Certificate of Current Cost or Pricing Data is not a substitute for examining and analyzing the offeror's proposal.

(5) If certified cost or pricing data are requested by FAA and submitted by an offeror, but an exception is later found to apply, the data must not be considered certified cost or pricing data and must not be certified in accordance with this subsection.

## II. COST ELEMENTS

Depending on the offeror's system, the offeror must provide breakdowns for the following basic cost elements, as applicable:

A. Materials and services. Provide a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (vendor quotes, invoice prices, etc.). Include raw materials, parts, components, assemblies, and services to be produced or performed by others. For all items proposed, identify the item and show the source, quantity, and price. Conduct price analyses of all subcontractor proposals. Conduct cost analyses for all subcontracts when certified cost or pricing data are submitted by the subcontractor. Include these analyses as part of the offeror's own certified cost or pricing data submissions. Submit the subcontractor certified cost or pricing data as part of the offeror's own certified cost or pricing data as required in subparagraph IIA (2) below. These requirements also apply to all subcontractors if required to submit certified cost or pricing data.

(1) Adequate Price Competition. Provide data showing the degree of competition and the basis for establishing the source and reasonableness of price. For interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the offeror, explain the pricing method.

(2) All Other. Obtain certified cost or pricing data from prospective sources (i.e., adequate price competition, commercial items, prices set by law or regulation or waiver). Also provide data showing the basis for establishing source and reasonableness of price. In addition, provide a summary of the offeror's cost analysis and a copy of certified cost

or pricing data submitted by the prospective source in support of each subcontract or purchase order that is the lower of either \$10,000,000 or more, or both more than the pertinent certified cost or pricing data threshold and more than 10 percent of the prime offeror's proposed price. The CO may require the offeror to submit certified cost or pricing data in support of proposals in lower amounts. Subcontractor certified cost or pricing data must be accurate, complete and current as of the date of final price agreement, or an earlier date agreed upon by the parties, given on the prime offeror's Certificate of Current Cost or Pricing Data. The prime offeror is responsible for updating a prospective subcontractor's data. For standard commercial items fabricated by the offeror that are generally stocked in inventory, provide a separate cost breakdown, if priced based on cost. For interorganizational transfers priced at cost, provide a separate breakdown of cost elements. Analyze the cost or pricing data and submit the results of the offeror's analysis of the prospective source's proposal. When submission of a prospective source's certified cost or pricing data is required as described in this paragraph, it must be included along with the offeror's own certified cost or pricing data submission, as part of the offeror's own certified cost or pricing data. The offeror must also submit any other certified cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on that data.

B. Direct Labor. Provide a time-phased (e.g., monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates.

C. Indirect Costs. Indicate how the offeror have computed and applied the offeror's indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.

D. Other Costs. List all other costs not otherwise included in the categories described above (e.g., special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and Federal excise tax on finished articles) and provide bases for pricing.

E. Royalties. 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 the royalty is payable.
- (5) Brief description (including any part or model numbers of each contract item or component on which the royalty is payable).
- (6) Percentage or dollar rate of royalty per unit.

(7) Unit price of contract item.

(8) Number of units.

(9) Total dollar amount of royalties.

(10) If specifically requested by the CO, a copy of the current license agreement and identification of applicable claims of specific patents.

F. Facilities Capital Cost of Money. When the offeror elects to claim facilities capital cost of money as an allowable cost, the offeror must submit form "Contract Facilities Capital Cost of Money." (see Template 32 in the FAA Procurement Forms section of the Procurement Toolbox). The offeror must show the calculation of the proposed amount.

### III. FORMATS FOR SUBMISSION OF LINE ITEM SUMMARIES

#### A. New Contracts (including letter contracts)

(1)	(2)	(3)	(4)
COST ELEMENTS	PROPOSED CONTRACT ESTIMATE- TOTAL COST	PROPOSED CONTRACT ESTIMATE- UNIT COST	REFERENCE

#### Column Instruction

(1) Enter appropriate cost elements.

(2) Enter those necessary and reasonable costs that, in the offeror's judgment, will properly be incurred in efficient contract performance. When any of the costs in this column have already been incurred (e.g., under a letter contract), describe them on an attached supporting page. When preproduction or startup costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them.

(3) Optional, unless required by the CO.

(4) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

#### B. Change Orders, Modifications, and Claims.

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(1) COST ELEMENTS	(2) ESTIMATED COST OF ALL WORK COMPLETED	(3) COST OF DELETED WORK ALREADY PERFORMED	(4) NET COST TO BE DELETED	(5) COST OF WORK ADDED	(6) NET COST OF CHANGE	(7) REFERENCE

Column Instructions

- (1) Enter appropriate cost elements.
- (2) Include the current estimates of what the cost would have been to complete the deleted work not yet performed (not the original proposal estimates), and the cost of deleted work already performed.
- (3) Include the incurred cost of deleted work already performed, using actuals incurred if possible, or, if actuals are not available, estimates from the contractor's accounting records. Attach a detailed inventory of work, materials, parts, components, and hardware already purchased, manufactured, or performed and deleted by the change, indicating the cost and proposed disposition of each line item. Also, if the contractor desires to retain these items or any portion of them, indicate the amount offered for them.
- (4) Enter the net cost to be deleted, which is the estimated cost of all deleted work less the cost of deleted work already performed. Column (2) minus Column (3) equals Column (4).
- (5) Enter the contractor's estimate for cost of work added by the change. When nonrecurring costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them. When any of the costs in this column have already been incurred, describe them on an attached a supporting schedule.
- (6) Enter the net cost of change, which is the cost of work added, less the net cost to be deleted. Column (5) minus Column (4) equals Column (6). When this result is negative, place the amount in parentheses.
- (7) Identify the attachment in which the information supporting the specific cost element may be found. (*Attach separate pages as necessary.*)

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**Section 3 : Cost Accounting Standards**

**Old Content:** Procurement Guidance:

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

**Section 3 : Cost Accounting Standards**

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a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

- (1) Firm fixed-price contracts or subcontracts contracts awarded on the basis of price competition alone;
- (2) Negotiated contracts and subcontracts under \$500,000;
- (3) Contracts and subcontracts with small businesses;
- (4) Contracts and subcontracts with foreign governments or their agents;
- (5) Contracts and subcontracts in which the price is set by law or regulation;
- (6) Firm fixed price and fixed-price with economic price adjustment contracts and subcontracts for commercial items;
- (7) Contracts and subcontracts to be executed and performed outside the United States, its territories, and possessions;
- (8) Contracts or subcontracts of less the \$7.5 million, provided that at the time of award the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts at \$7.5 million or more; and
- (9) Contracts and subcontracts awarded to the United Kingdom for performance substantially in the UK.

b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

c. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

d. *Responsibilities.*

- (1) The CO is responsible for determining when a proposed contract may require CAS coverage and for including the appropriate notice in the screening information request. The CO must then ensure that the offeror has made the required certifications and that required Disclosure Statements are submitted.

(2) The CO should not award a CAS-covered contract until the CO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.

(3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.

(4) The cognizant CO is responsible for determinations of adequacy and compliance of the Disclosure Statement.

*e. Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant CO. The CO will determine whether or not it adequately describes the offeror's cost accounting practices. If the CO identifies any areas of inadequacy, the CO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the CO should notify the offeror in writing, with copies to the auditor and CO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or accumulating and reporting contract performance cost data. Generally, the CO should furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the CO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

*f. Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy or inadequacy, the CO cognizant of the subcontractor will provide such determination to the CO cognizant of the prime contractor or next higher tier subcontractor. CO's cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

(2) The agency head may determine that it is practical to secure the Disclosure Statement, although submission is required, and authorize contract award without

obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

g. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS matters.

h. *Changes to Disclosed or Established Cost Accounting Practices.* Adjustments to contracts and withholding amounts payable for CAS noncompliance, new standards, or voluntary changes are required only if the amounts involved are material. In determining whether amounts of cost are material or immaterial, the following criteria will be considered by the CO where appropriate; no one criterion is necessarily determinative:

(1) *The absolute dollar amount involved.* The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact on Government funding.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.

(5) *The cumulative impact of individually immaterial items.* It is appropriate to consider whether such impacts:

(a) Tend to offset one another; or

(b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification must be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The CO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the CO determines the amount involved is immaterial. However, in the case of noncompliance issues, the CO should inform the contractor that:

- (1) FAA reserves the right to make appropriate contract adjustments if, in the future, the CO determines that the cost impact has become material; and
- (2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

i. *Equitable Adjustments for New or Modified Standards.*

(1) *New or Modified Standards.*

- (a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The CO must ensure that the contractor's response to the notice is made known to the CO.
- (b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards, is awarded on or after the effective date of the new or modified standard.
- (c) COs should encourage contractors to submit to the CO any change in accounting practice in anticipation of complying with a new or modified standard as soon as practical after the new or modified Standard has been promulgated by the CASB.

(2) *Accounting Changes.*

- (a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.
- (b) The CO will review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO will notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) The CO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The CO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the CO will:

(i) Execute supplemental agreements to contracts of the CO's own agency (and, if additional funds are required, request them from the appropriate CO);

(ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the negotiation (those agencies must execute supplemental agreements in the amounts negotiated); and

(iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. This memorandum will serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the CO may make a unilateral adjustment, subject to contractor appeal.

*(4) Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

*j. Noncompliance with CAS Requirements.*

(1) *Determination of Noncompliance.*

(a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the CO must make an initial finding of compliance or noncompliance and advise the auditor.

(b) If an initial finding of noncompliance is made, the CO must immediately notify the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.

(c) If the contractor agrees with the initial finding of noncompliance, the CO must review the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.

(d) If the contractor disagrees with the initial noncompliance finding, the CO must review the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance. If the CO determines that the contractor's practices are in noncompliance, a written explanation must be provided as to why the CO disagrees with the contractor's rationale. The CO must notify the contractor and the auditor in writing of the determination. If the CO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, must be followed.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) The CO must request that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.

(b) Upon receipt of the cost impact proposal, the CO must then follow the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or Modified Standards". In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the CO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the

noncompliance. Interest must be computed from the date of overpayment to the time the adjustment is effected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest. An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred. Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must notify the contractor and request agreement as to the cost or price adjustment together with any applicable interest. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

(c) If the CO determines that there is no material increase in costs as a result of the noncompliance, the CO must notify the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

k. *Voluntary Changes.*

(1) *General.*

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the CO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) With the assistance of the auditor, the CO must promptly analyze the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. The CO must consider all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher-tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment must not be considered.

(b) The CO must then follow the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is appropriate, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that, in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment subject to contractor appeal.

1. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CO cognizant of the subcontractor must make the determination and advise the CO cognizant of the prime contractor or next higher tier subcontractor of his decision. COs cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

**New Content: Procurement Guidance:**

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

**Section 3 : Cost Accounting Standards**

a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

(1) Negotiated contracts and subcontracts not in excess of \$650,000. For purposes of this arrangement, and order issued by one segment to another must be treated as a subcontract.

(2) Contracts and subcontracts with small businesses.

(3) Contracts and subcontracts with foreign governments or their agents or instrumentalities or (insofar as the requirements of CAS other than 9904.401 and 99.402 are concerned) any contract or subcontract awarded to a foreign concern.

(4) Contracts and subcontracts in which the price is set by law or regulation;

(5) Firm fixed price and fixed-price with economic price adjustment (provided that the price adjustment is not based on actual costs incurred), time-and-materials, and labor-hour contracts and subcontracts for acquisition of commercial items.

(6) Contracts or subcontracts of less the \$7.5 million, provided that at the time of award the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts at \$7.5 million or greater.

(7) Contracts and subcontracts to be executed and performed outside the United States, its territories, and possessions; and

(8) Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of cost or pricing data.

b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

c. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

d. *Responsibilities.*

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(1) The CO is responsible for determining when a proposed contract may require CAS coverage and for including the appropriate notice in the screening information request. The CO must then ensure that the offeror has made the required certifications and that required Disclosure Statements are submitted.

(2) The CO should not award a CAS-covered contract until the CO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.

(3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.

(4) The cognizant CO is responsible for determinations of adequacy and compliance of the Disclosure Statement.

*e. Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant CO. The CO will determine whether or not it adequately describes the offeror's cost accounting practices. If the CO identifies any areas of inadequacy, the CO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the CO should notify the offeror in writing, with copies to the auditor and CO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or accumulating and reporting contract performance cost data. Generally, the CO should furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the CO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

*f. Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy or inadequacy, the CO cognizant of the subcontractor will provide such determination to the CO cognizant of the prime contractor or next higher tier subcontractor. CO's

cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

(2) The agency head may determine that it is practical to secure the Disclosure Statement, although submission is required, and authorize contract award without obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

g. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS matters.

h. *Changes to Disclosed or Established Cost Accounting Practices.* Adjustments to contracts and withholding amounts payable for CAS noncompliance, new standards, or voluntary changes are required only if the amounts involved are material. In determining whether amounts of cost are material or immaterial, the following criteria will be considered by the CO where appropriate; no one criterion is necessarily determinative:

(1) *The absolute dollar amount involved.* The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact on Government funding.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.

(5) *The cumulative impact of individually immaterial items.* It is appropriate to consider whether such impacts:

(a) Tend to offset one another; or

(b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification must be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The CO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the CO determines the amount involved is immaterial. However, in the case of noncompliance issues, the CO should inform the contractor that:

(1) FAA reserves the right to make appropriate contract adjustments if, in the future, the CO determines that the cost impact has become material; and

(2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

*i. Equitable Adjustments for New or Modified Standards.*

*(1) New or Modified Standards.*

(a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The CO must ensure that the contractor's response to the notice is made known to the CO.

(b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards, is awarded on or after the effective date of the new or modified standard.

(c) COs should encourage contractors to submit to the CO any change in accounting practice in anticipation of complying with a new or modified standard as soon as practical after the new or modified Standard has been promulgated by the CASB.

*(2) Accounting Changes.*

(a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.

(b) The CO will review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO will notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) The CO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The CO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the CO will:

- (i) Execute supplemental agreements to contracts of the CO's own agency (and, if additional funds are required, request them from the appropriate CO);
- (ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the negotiation (those agencies must execute supplemental agreements in the amounts negotiated); and
- (iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. This memorandum will serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the CO may make a unilateral adjustment, subject to contractor appeal.

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must request the contractor to

agree to the cost or price adjustment. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

j. *Noncompliance with CAS Requirements.*

(1) *Determination of Noncompliance.*

(a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the CO must make an initial finding of compliance or noncompliance and advise the auditor.

(b) If an initial finding of noncompliance is made, the CO must immediately notify the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.

(c) If the contractor agrees with the initial finding of noncompliance, the CO must review the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.

(d) If the contractor disagrees with the initial noncompliance finding, the CO must review the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance. If the CO determines that the contractor's practices are in noncompliance, a written explanation must be provided as to why the CO disagrees with the contractor's rationale. The CO must notify the contractor and the auditor in writing of the determination. If the CO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, must be followed.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) The CO must request that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.

(b) Upon receipt of the cost impact proposal, the CO must then follow the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or Modified Standards". In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the CO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the noncompliance. Interest must be computed from the date of overpayment to the time the adjustment is effected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest. An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred. Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

*(4) Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must notify the contractor and request agreement as to the cost or price adjustment together with any applicable interest. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

(c) If the CO determines that there is no material increase in costs as a result of the noncompliance, the CO must notify the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

*k. Voluntary Changes.*

*(1) General.*

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

*(2) Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the CO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

*(3) Contract Price Adjustments.*

(a) With the assistance of the auditor, the CO must promptly analyze the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. The CO must consider all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher-tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment must not be considered.

(b) The CO must then follow the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

*(4) Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is appropriate, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that,

in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment subject to contractor appeal.

1. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CO cognizant of the subcontractor must make the determination and advise the CO cognizant of the prime contractor or next higher tier subcontractor of his decision. COs cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

**Red Line Content: Procurement Guidance:**

*T3.2.3 - Cost and Price Methodology*

*Cost and Price Methodology*

**Section 3 : Cost Accounting Standards**

a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

(1) ~~Firm fixed price~~ Negotiated contracts ~~or~~ and subcontracts ~~contracts~~ not awarded on the in excess of basis \$650,000. For purposes of price this competition arrangement, alone; (2) ~~and~~ Negotiated contracts and subcontracts under order issued by one segment \$500,000 to another ; must be treated as a subcontract.

(3) ~~2~~ 3 Contracts and subcontracts with small businesses;

(4) ~~3~~ 4 Contracts and subcontracts with foreign governments or their agents; or instrumentalities or (insofar as the requirements of CAS other than 9904.401 and 99.402 are concerned) any contract or subcontract awarded to a foreign concern.

(5) ~~4~~ 5 Contracts and subcontracts in which the price is set by law or regulation;

(6) ~~5~~ 6 Firm fixed price and fixed-price with economic price adjustment contracts (provided and subcontracts for commercial that the price adjustment items; (7) ~~is~~ is Contracts and subcontracts to be not based on actual costs executed incurred), time-and-materials, performed and outside labor-hour the United contracts and States, subcontracts for its acquisition territories, of and commercial possessions; items.

(8) ~~6~~ 7 Contracts or subcontracts of less than \$7.5 million, provided that at the time of award the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts at \$7.5 million or ~~more;~~ and greater.

(97) Contracts and subcontracts awarded to be executed and performed outside the United Kingdom States, for its performance territories, substantially and in possessions; and

(8) Firm-fixed-price contracts or subcontracts awarded on the UK basis of adequate price competition without submission of cost or pricing data.

b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

c. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

d. *Responsibilities.*

(1) The CO is responsible for determining when a proposed contract may require CAS coverage and for including the appropriate notice in the screening information request. The CO must then ensure that the offeror has made the required certifications and that required Disclosure Statements are submitted.

(2) The CO should not award a CAS-covered contract until the CO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.

(3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.

(4) The cognizant CO is responsible for determinations of adequacy and compliance of the Disclosure Statement.

e. *Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant CO. The CO will determine whether or not it adequately describes the offeror's cost accounting practices. If the CO identifies any areas of inadequacy, the CO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the CO should notify the offeror in writing, with copies to the auditor and CO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or

accumulating and reporting contract performance cost data. Generally, the CO should furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the CO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

f. *Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy or inadequacy, the CO cognizant of the subcontractor will provide such determination to the CO cognizant of the prime contractor or next higher tier subcontractor. CO's cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

(2) The agency head may determine that it is practical to secure the Disclosure Statement, although submission is required, and authorize contract award without obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

g. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS matters.

h. *Changes to Disclosed or Established Cost Accounting Practices.* Adjustments to contracts and withholding amounts payable for CAS noncompliance, new standards, or voluntary changes are required only if the amounts involved are material. In determining whether amounts of cost are material or immaterial, the following criteria will be considered by the CO where appropriate; no one criterion is necessarily determinative:

(1) *The absolute dollar amount involved.* The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact on Government funding.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.

(5) *The cumulative impact of individually immaterial items.* It is appropriate to consider whether such impacts:

(a) Tend to offset one another; or

(b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification must be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The CO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the CO determines the amount involved is immaterial. However, in the case of noncompliance issues, the CO should inform the contractor that:

(1) FAA reserves the right to make appropriate contract adjustments if, in the future, the CO determines that the cost impact has become material; and

(2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

i. *Equitable Adjustments for New or Modified Standards.*

(1) *New or Modified Standards.*

(a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The CO must ensure that the contractor's response to the notice is made known to the CO.

(b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new

contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards. is awarded on or after the effective date of the new or modified standard.

(c) COs should encourage contractors to submit to the CO any change in accounting practice in anticipation of complying with a new or modified standard as soon as practical after the new or modified Standard has been promulgated by the CASB.

*(2) Accounting Changes.*

(a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards. requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.

(b) The CO will review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO will notify the contractor and request submission of a cost impact proposal.

*(3) Contract Price Adjustments.*

(a) The CO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The CO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the CO will:

(i) Execute supplemental agreements to contracts of the CO's own agency (and, if additional funds are required, request them from the appropriate CO);

(ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the negotiation (those agencies must execute supplemental agreements in the amounts negotiated); and

(iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. This memorandum will serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the CO may make a unilateral adjustment, subject to contractor appeal.

*(4) Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

*j. Noncompliance with CAS Requirements.*

*(1) Determination of Noncompliance.*

(a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the CO must make an initial finding of compliance or noncompliance and advise the auditor.

(b) If an initial finding of noncompliance is made, the CO must immediately notify the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.

(c) If the contractor agrees with the initial finding of noncompliance, the CO must review the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.

(d) If the contractor disagrees with the initial noncompliance finding, the CO must review the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance. If the CO determines that the contractor's practices are in noncompliance, a written explanation must be provided as to why the CO disagrees with the contractor's rationale. The CO must notify the contractor and the auditor in writing of the determination. If the CO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, must be followed.

*(2) Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

*(3) Contract Price Adjustments.*

(a) The CO must request that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.

(b) Upon receipt of the cost impact proposal, the CO must then follow the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or Modified Standards". In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the CO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the noncompliance. Interest must be computed from the date of overpayment to the time the adjustment is effected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest. An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred. Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

*(4) Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is required, the CO must notify the contractor and request agreement as to the cost or price adjustment together with any applicable

interest. The contractor must also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment, subject to contractor appeal.

(c) If the CO determines that there is no material increase in costs as a result of the noncompliance, the CO must notify the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

k. *Voluntary Changes.*

(1) *General.*

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

(2) *Accounting Changes.*

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the CO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The CO must review the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the CO must notify the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

(a) With the assistance of the auditor, the CO must promptly analyze the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. The CO must consider all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher-tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment must not be considered.

(b) The CO must then follow the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

(4) *Remedies for Contractor Failure to Make Required Submissions.*

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the CO, with the assistance of the auditor, must estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The CO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the CO determines that an adjustment is appropriate, the CO must request the contractor to agree to the cost or price adjustment. The contractor must also be advised that, in the event no agreement on the cost or price adjustment is reached within 20 days, the CO may make a unilateral adjustment subject to contractor appeal.

1. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CO cognizant of the subcontractor must make the determination and advise the CO cognizant of the prime contractor or next higher tier subcontractor of his decision. COs cognizant of higher tier subcontractors or prime contractors must not reverse the determination of the CO cognizant of the subcontractor.

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