



Cost/Price Analysis Services **Contract Pricing Questions & Answers**

January 2023

AAP-500 Services Q&As

How can Cost/Price Analysis Services, AAP-500, support the Procurement Team?

Here are some ways we provide support to our customers:

- Provide cost and price analysis direct support to Contracting Officers for both pre and post award contract actions, including billing issues, contract closeout, SIR preparation support, and debrief/ADR/protest support;
- Develop a price negotiation position for Contracting Officers in Single Source Procurements;
- Manage agency programs for contract cost/price analysis and commercial post-award audit support services;
- Provide contractor's Financial Reports (i.e. Experian);
- Perform Financial Administrative Contracting Officer (FACO) responsibilities for contractors over which the FAA has primary cognizance;
- Develop and provide training for cost/price analysis and related financial issues;
- Determine offeror's Financial Responsibility by providing analysis of accounting statements/financial ratios/liquidity;
- Provide IHS-Markit forecast economic escalation factors.
- Manage the Defense Contract Audit Agency (DCAA) program; facilitate audits for agency contracts.

When should I get AAP-500 Cost/Price Analysis Services involved in my procurement?

If you plan to request assistance from AAP-500, we recommend getting us involved as early on as possible. We can assist with drafting the SIR, developing the pricing evaluation criteria, and preparing the Cost Model. AAP-500 can also help you validate the soundness of your IGCE, if one is required. Refer to our SIR Cost/Price Development Guide for steps and useful tips to develop your solicitation.

How can I request AAP-500 services for my procurement?

You can request pricing support through AAP-500's Support Request Portal here:

[AAP500 Support Request Portal](#)

A link to the Portal can also be found in Our Homepage: **[Cost-Price Analysis Services Homepage](#)**

Please complete as many fields as possible and upload/attach all relevant documentation available. We will respond to you within one business day.

I (CO) am working a request for a competitive procurement and I am not sure how to evaluate cost/price?

We can work together with you and the program office to write/review the SIR, especially what to request from prospective contractors and to develop the evaluation criteria. Our goal is to support you in drafting a clear SIR and evaluation strategy that not only follows best

practices and AMS but also maximizes the probability of successfully withstanding a protest (pricing) challenge.

Do I have to notify AAP-500 when awarding a cost reimbursement contract?

Yes, IAW T3.2.4 A3, the CO must notify FAA Cost/Price Analysis Services (AAP-500) when awarding all cost reimbursable contracts. This requirement includes task orders and contracts with reimbursable CLINs over 15% of the total estimated contract value.

What is a Financial Administrative Contracting Officer (FACO) and what do they do?

Financial Administrative Contracting Officers (FACO) are FAA employees who perform financial administration, including system adequacy determination, forward pricing and year-end actual rate administration and negotiation, and cost allowability determination to companies whenever the FAA is the cognizant agency. A FACO will also establish billing rates, make forward pricing rate recommendations, negotiate forward pricing rate agreements, and negotiate final indirect rates for cost-reimbursement contracts with companies over whom FAA has cognizance. Please see AMS Guidance T3.2.3A4 for an expanded list of role and responsibilities of a FACO.

Proposal Cost and Price Analysis Techniques Q&As

Are Price Reasonableness and Price Realism the same?

No. The purpose of such a price reasonableness review is to determine whether the prices offered are too high. Price Realism is an analysis to determine whether prices are too low, such that there may be a risk of poor performance. See more in AMS Guidance T3.2.3 A.1.d.3.

Am I always required to perform a Price Realism evaluation for a firm-fixed priced procurement?

No. Price Realism is an assessment to determine whether the contractor will be able to perform at the proposed price. Hence, the risk is on performance, not price. Price realism is used when requirements may not be fully understood by the offeror, there are quality concerns, or past experience indicates that contractors' proposed prices have resulted in quality or service shortfalls. If there are performance or quality concerns, we recommend reserving the right to perform price realism when developing your evaluation criteria. Read more in AMS Guidance T3.2.3 A.1.d.3.

Is a technical (cost realism) review required when performing cost realism on cost reimbursement contracts? (Commonly referred to as a Qualitative and Quantitative analysis (Q&Q))

Yes. The technical cost realism acquisition team member(s) review the SIR requirements, and each offeror's technical and cost proposal, to ensure the cost proposal reflects the costs required to accomplish the work through the unique methods and approaches identified in the offeror's technical proposal. The technical cost realism reviewer determines which direct labor hours and other direct costs should be adjusted up or down and by what amount. This includes a review of types and quantities of materials or Other Direct Costs (ODCs) proposed. Read more in AMS Guidance T3.2.3 A.1.d.2.

Am I required to develop a Most Probable Cost (MPC) estimate for award of cost reimbursement contracts?

Yes. Cost realism analysis determines whether proposed costs may be overstated or understated with respect to performing SIR requirements using the contractor's unique and described methods in the cost and technical proposals. The offeror's Most Probable Cost

(MPC) is determined by adjusting each offeror's proposed cost, and fee when appropriate, to reflect any additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis. MPC development may require either upward or downward adjustments. The MPC is used in the tradeoff process in order to avoid basing the award decision on an overly underestimated (or overestimated) proposal. However, award is made at the proposed price. The MPC is the result of the Q&Q analysis. Read more in AMS Guidance T3.2.3 A.1.d.2.

Do I calculate an MPC in a fixed price or T&M procurement?

No. Although price realism may be performed in those cases, cost realism is not performed. You may need to obtain cost information, but still would not adjust the proposed price. The price realism evaluation would normally determine if the offeror understands the requirements and has the financial capability to withstand any loss if the offeror chooses to buy-in for the award. Buying-in is not prohibited by AMS, but the procurement team (normally the CO) must determine the contractor to be responsible, which should include a determination that the offeror is financially capable of performing the requirements. Additionally, the risk involved in buying-in should be considered in the trade off analysis.

What is the difference between cost and price analysis?

Price analysis is the review of the total price proposed by the offeror. Cost analysis is a review of the individual cost elements (i.e. materials, direct labor, O/H, G&A and profit) that make up the price. Price analysis is required by the AMS for every procurement. Cost analysis is required under situations when reasonableness cannot be determined by price analysis alone and/or if the contract is planned to have cost reimbursable CLINs or delivery/task orders. Please see AMS T3.2.3 for a more in depth discussion.

Will the Cost/Price analysis report include a determination of Fair and Reasonable price or prices?

No. Contracting Officers (COs) are responsible for determining whether contract prices are fair and reasonable. The F&R determination must consider the technical aspects and value of the proposed solution. However, COs may request Field Pricing Support in order to support the F&R determination. Field pricing support is independent support intended to give the CO an analysis of the contractor's cost/price proposal or other areas related to contract pricing. Field pricing support personnel include, but are not limited to, cost/price analysts, auditors, quality assurance personnel, and technical staff. AAP-500 can assist you in your F&R determination by providing an independent cost or price analysis, as applicable to each specific procurement. Read more in AMS T3.2.3 A.1. A report or memorandum provided by AAP-500 will provide an opinion on reasonableness of the price or a negotiating position and if required, an opinion on realism.

In a T&M or Labor Hours competitive procurement, should all labor rates have estimated hours associated in order to be factored into the Total Evaluated Price?

Although it might not be possible in every procurement, we recommend including all labor rates in the Total Evaluated Price. Labor rates not included in the TEP can be evaluated separately but this generally results in higher rates since they would not have a bearing on the TEP. When all proposed rates are included in the TEP, every rate will factor into the TEP, which will be used to tradeoff non-price factors (technical/past performance). Labor rates included in the TEP may also be evaluated individually as part of the reasonableness determination on the TEP.

Can a vendor charge my contract for proposal preparation costs as a direct contract cost??

Notwithstanding any provision in your contract specifying that proposal costs are unallowable, the CO may allow a vendor to bill for proposal preparation costs when the proposal is as a result of a Government's request, for example exercising the changes clause, adding new requirements, engineering change proposals or definitization of unpriced actions. Proposal preparation expenses, not specifically required by a contract (e.g. competitive procurements) are by definition indirect and are to be charged through a Bid and Proposal (B&P) pool. If there is a specific requirement in an existing contract to submit a proposal, costs of preparing the proposal are allocable only to the contract requiring the proposal (directly charged).

I am working with a competitive procurement but only one offer was received, do I still have adequate price competition?

AMS T3.2.3 A 1 (3) a (ii) acknowledges adequate price competition when a single offer is received provided there was a reasonable 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. In effect, the AMS is saying that an offeror tendering an offer in ignorance of the absence of competition is tendering a competitive offer.

Cost Element Analysis Q&As

What is the difference between fully burdened labor rates and direct labor rates?

Direct labor rates are what the employee is paid on an hourly or annual basis. It contains no additional indirect rates, burdens or profit. The fully burdened labor rate contains the direct labor rate, all applicable burdens (i.e. Fringe, Overhead, G&A) and profit.

Where can I find salary data to evaluate direct labor rates?

There are several sites available. Some of the most recommended are Glassdoor.com, salary.com, and Payscale.com. These sites also allow you to filter based on geographic location and similar to GSA-CALC (for fully burdened rates), you can filter your search based on experience and education.

Where can I find market rates to analyze fully burdened labor rates?

The recommended site used by the AAP-500 team is GSA-CALC (GSA.calc.gov). It contains published approved ceiling rates for existing GSA contracts. This site allows you to filter based on education, years of experience, business size, and location of employees (customer or vendor site). However, it does not allow you to filter based on geographic location. Thus the range of results can be large. We recommend being as specific as possible. Additionally, labor rates found in eFAST schedules are a good source when analyzing rates from small businesses. If comparable labor categories are not available, you can request the contractor to provide labor rate buildup. We recommend requesting offerors to include labor rate buildups with their proposals to minimize the need for clarifications and avoid procurement delays.

How do I evaluate escalation (inflation)?

It is recommended to use the IHS-Markit (A subsidiary of S&P Global) forecasted escalation rates when both evaluating proposals and preparing IGCEs. Keep in mind that different factors may apply to labor, materials or ODCs. The IHS forecast tables are updated quarterly. Please contact AAP-500 for the most recent available factors.

I am evaluating a contractor's indirect rates, can AAP-500 provide a benchmark for Overhead, G&A or other indirect rates?

There is no standard or benchmark for indirect rates. Indirect rates percentages depends on a variety of factors, including the type of industry, business size and accounting practices for accumulating costs. For example, expect indirect costs to represent a larger share of a cost proposal for heavy equipment manufacture than one for contract services. Manufacturing operations typically require substantial investment in plant and equipment --the type of spending that generally cannot be directly charged to any one product while services generally do not require a similar level of investment in plant and equipment.

But what if I need indirect rates to help me develop an Independent Government Cost Estimate (IGCE)?

AAP-500 can provide indirect rates for development of the IGCE, based on criteria provided, e.g. a small business set aside, full and open competition, etc. We provide rates based on various actual rates for vendors already doing business with the FAA.

Should I ask vendors to estimate travel costs in their proposal for a competitive procurement?

You could, but we recommend not doing so, as future travel costs are typically difficult to estimate and change quite often. The travel requirement will have to be very well defined in your solicitation. Additionally, the procurement team will have to have adequate and sufficient travel details (frequency, number of travelers, destinations, etc.) to be able to evaluate vendor estimates and include them as part of your evaluation criteria. Also, you would need to take into account that the vendors may be traveling from different locations, which would uneven the playing field in terms of an evaluation. We recommend including in the solicitation a ceiling amount for proposal evaluation purposes that should match the amount in the IGCE. This NTE would be included in the contract and drawn down as travel is taken.

What is the appropriate fee for a cost-reimbursement contract?

When cost analysis is required for price negotiation, proposed fee is analyzed. When analyzing fee consideration should be given to:

- The complexity of the work to be performed;
- The risk borne by the contractor;
- The contractor's investment;
- Ratio of indirect costs to direct costs;
- Extent of subcontracting; complexity of materials requirements; and
- Commitment of capital investments to contract performance.

For the purposes of establishing a negotiation position, the CO may use a structured method (e.g. agency-mandated weighted guidelines) for determining the profit/fee appropriate for the work to be performed. Read more in AMS Guidance T3.2.3 A.1.c.4.

Should a contract include a cost incentive (or constraint) if the contract will also include incentives for delivery, schedule or performance?

Yes. No incentive contract should provide for other incentives without also providing a cost incentive (or constraint). When performance, schedule or delivery incentives are used, any increase in costs incurred to achieve the better performance or to avoid a schedule or delivery penalty will be chargeable to the contract and shared with the FAA, to the extent they are reasonable.(and in compliance with the applicable cost incentive structure). Therefore, it is important to create an incentive structure that motivates better performance but precludes

rewarding the contractor for superior technical performance when the cost of those results outweighs their values to the FAA.

My contract includes a Cost-Reimbursement CLIN for Other Direct Costs (ODCs) and the contractor is charging facility costs as an ODC. Can the contractor charge facility expenses as an ODC?

It depends on the contractor's accounting practices and whether your contract has a requirement for facilities. Some contractors may charge facility expenses as an overhead percentage and others may use a different method of allocation (e.g. facility expense dollars per square footage) that result in charging facility expenses to contracts as ODCs. The important thing is to ensure the contractor is consistent in the method of allocation chosen (and are following their CAS disclosed practices, if applicable) and that charges are spread in an equitable manner to all contracts benefiting from the facility. If the contract does not have a requirement for specific facilities, we recommend asking for either a Disclosure Statement or the accounting practices/policies to ensure the contractor is billing in compliance with these practices.

What is Cost of Money and is it an allowable cost?

Facilities capital cost of money (FCCOM) is an imputed cost calculated by applying the applicable cost-of-money rate to the facilities capital employed in contract performance. An imputed cost is a cost purposefully attributed to something else, in this case to a contractor's investment in facilities and equipment. For example, suppose a contractor has two options: invest \$5,000,000 in modernization of long term assets and save \$1,000,000 per year for the next 10 years or invest \$5,000,000 in a new business venture that is projected to return \$10,000,000 with high probability. If the contractor has primarily cost reimbursement and negotiated fixed price contracts, any saving from the first option will be priced into future contracts or result in a reduction of reimbursements, but will not necessarily translate into profits. Given these types of alternatives, contractors have no direct incentive to invest in cost reducing improvements and will most likely pursue other opportunities. Allowing the cost of money related to missing the opportunity for increased profits encourages contractors to commit funds to reducing Government born expenses.

FCCOM is considered an incurred cost for reimbursement purposes under applicable cost-reimbursement contracts and for progress payment (based on cost) purposes under fixed price contracts. However, to be an allowable contract cost, FCCOM has to be specifically identified and proposed in cost proposals relating to the contract under which the cost is to be claimed. If it is not proposed, it is an unallowable cost. Read more in AMS Guidance T3.3.2 Appendix D2 (7).

I have a cost-reimbursement contract that incorporates a clause establishing indirect ceiling rates. Does this limitation apply to a subcontractor's indirect rates?

No. The FAA has no privity of contract with subcontractors. Unless the contract includes a clause to limit subcontract costs in the same way as the prime, the prime contractor will pass through (invoice) the subcontractor costs as they are incurred. The CO still has to determine the allowability and reasonableness of subcontract costs.

Other Q&As

I have one or more contracts with a contractor that is administered by the Defense Contract Management Agency (DCMA). For business reasons, the contract will now be transferred to another contractor as part of a Novation Agreement, and DCMA is requesting the FAA's concurrence with this novation. Is this the typical process and should I concur?

There are various reasons contracts novate to another contractor. For example, the contractor sells some of its contracts, or the contractor or a contractor's segment is purchased and/or merges with another business. If DCMA has oversight over this contractor, they will initiate and execute a novation agreement for all contracts, including the FAA's, if there is concurrence. Unless you determine it's not in the FAA's best interest, we recommend concurring with the inclusion of your contract in the novation agreement. Otherwise, you will have to separately execute your own novation agreement for your contract. A novation must go through AGC and may be a very lengthy process, so be careful if you do not wish to be included in DCMA's novation determination. Also, bear in mind that a novation and a name change are not the same thing. A name change is not as labor intensive and does not require any work by AGC. Read more about contract Novation in AMS Guidance T3.10.1. A 6.

How does withholding of fee on a Cost-Plus-Fixed-Fee contract work?

Withholding fee is a unilateral right held by the Government to protect the Agency's interest in the case of overpayment pending final reconciliation of actual costs incurred under a cost reimbursable type contract. AMS clause 3.2.4-6, Fixed Fee, addresses payments in context of invoiced amounts. Payment of the fixed fee is based on withholding 15% up to \$100,000. As this is a percentage based withholding up to a maximum amount, 15% of each invoiced amount is withheld (not paid to the vendor) by the CO until the maximum of \$100,000 is reached; thereafter the CO continues paying 100% of the invoiced amounts up to the fixed fee amount specified in the contract. Whether the contract is in a base or option period is not relevant to the withholding- it is, a payment, invoice determined withholding. Once the contract is physically complete, the withheld fee may be paid once the COR has taken acceptance of all products and/or all requirements have been satisfactorily met. There is no requirement to wait for contract closeout, and we recommend the withheld fee be paid as quickly as reasonably possible.

Price Adjustments related to Service Contract Labor Standards (SCLS)

I am exercising an option for an SCLS (formerly known as Service Contract Act) covered contract and need to make a price adjustment to the contract to incorporate new Wage Determinations (WD) or update wages in accordance with an established Collective Bargaining Agreement. Generally, a contractor's price adjustment request is submitted shortly after the Contracting Officer incorporates the new WD, at the beginning of the new contract period. The computation of the adjustment will be based upon the projected impact of the new WD. A price adjustment is based on what the contractor actually paid its employees, not on the previous wage determination rates. For example, the prevailing WD is \$18 but the vendor pays its employees \$20. The DOL issues a new WD of \$22, the vendor would be entitled to an increase of \$2, not \$4. In other words, the Government is only required to bring the actual hourly wage paid to the employee to the level of the new WD.

For Health & Welfare adjustments, if the increase is paid directly to employees, it is considered taxable wages and the contractor will incur accompanying adjustment in FICA taxes, and potentially, workers compensation and unemployment costs. However, adjustments may not include general administrative costs, overhead and/or profit. Therefore, care must be taken to separate out those items for which adjustment is allowed and those for which it is not. To that point, getting actual cost buildup in the offeror's proposal might help you facilitate the administration and execution of required price adjustments for SCLS covered contracts. Read more in AMS Guidance T3.6.2 10.

What are the four phases of an indirect rate and how do they each impact my cost reimbursement contract?

Provisional Billing Rates:

- a) Used for reimbursement on cost type contracts prior to physical completion (and the materials portion of a T&M contract);
- b) Used on interim invoices;
- c) Required IAW AMS 3.2.4-5(e), Allowable Cost and Payment, Billing Rates; and
- d) Revised provisional rates are issued annually and the contractor may not unilaterally change them. The contractor would need to submit a new forward pricing rate proposal for the Government's review and approval.

Actual Rates:

- a) Calculated at the end of the contractor's fiscal year;
- b) Reflect actual costs booked in the contractor's accounting system;
- c) May include unallowable costs; and
- d) Not required to be submitted for review/audit.

Claimed Rates:

- a) The rates submitted to the Government for recovery of indirect costs in the Incurred Cost Claim;
- b) The contractor certifies that no unallowable costs are included; and
- c) Are subject to audit.

Final (Settled) Rates:

- a) Rates determined after audit by Government auditors or a commercial entity under contract to a Government agency;
- b) Used to close cost type contracts/task orders (and materials on T&M);
- c) Determined on an annual (contractor fiscal year) basis, and invoices must be adjusted once the rates are settled; and
- d) Are bilaterally executed.

I am considering awarding a cost-plus-fixed-fee (CPFF) contract but there are concerns about labor cost overruns. What can I do to mitigate some of this risk?

Besides the applicable AMS clauses and adequate tracking and surveillance of costs, a CPFF Level-of-Effort Term (CPFF/LOE/Term) contract may help mitigate some of this risk. A CPFF/LOE/Term contract is a variant of the CPFF contract type where the labor hours are stipulated for a certain period of time (e.g. monthly, annual) and can reduce the likelihood of overruns since the contractor is working to deliver the stipulated number of hours. Overruns primarily occur when labor costs are more than anticipated (or indirect costs are higher than anticipated). In a CPFF/LOE/Term, however, labor hours are not a source of cost risk. The main source of risk would be the direct labor rates which may be managed by establishing ceiling rates that the contractor can only exceed with the CO's advanced approval. A CPFF/LOE/Term contract should include a clause to the effect that if the contractor does not deliver the level of effort, it will be only entitled to a percentage of the fixed fee commensurate with the percentage of the level of effort actually delivered. It should also stipulate that incurred hours in excess of the stipulated LOE will be unallowable unless approved in advance by the CO. AAP-500 can provide language for this clause and assist with establishing the cost parameters.

What type of costs are allowable as *Settlement Expenses* in a contract termination for convenience?

The following settlement expenses are generally allowable:

- a) Accounting, legal or clerical reasonably necessary for the preparation of a settlement proposal.

- b) Reasonable costs of storage, transportation of property acquired or produced for the contract.

In addition, indirect costs related to salary and wages incurred as settlement expenses (for labor associated with the activities described in the previous sentences). Normally, such indirect costs are limited to payroll taxes, fringe benefits, occupancy costs, and immediate supervision costs. Read more in AMS Guidance T3.3.2 (39).

Note that profit may be allowed on preparations made and work done by the contractor for the terminated portion of the contract but not on the settlement expenses. Read more in AMS Guidance T3.10.6 A 2.

What is Certified Cost or Pricing data?

This is cost or pricing data where the offeror certifies as to the accuracy, completeness and currency of the data as of a specific date before execution of the contract action. This includes all facts that prudent buyers and sellers would reasonably expect to significantly affect price negotiations. Certified cost or pricing data are factual, not judgmental; and are verifiable. The Government is entitled to a price adjustment, related to the defective data, if certified cost or pricing data is found to be inaccurate, incomplete, or noncurrent as of the date of the action. For real property acquisitions, certified cost or pricing data is not required. Also, certified cost or pricing data must not be requested when adequate price competition exists or in situations with established catalog or market prices, prices set by law or regulation, or commercial items. In such cases price analysis is sufficient and the CO must not request cost data. Read more in AMS Policy 3.2.3.1.2 and Guidance T3.2.3 A1 a (1) (a).

Is Certified Cost or Pricing data always required for a single source procurement?

No. In a single source procurement, the CO has the discretion to request data other than certified cost or pricing data instead. This is pricing data, cost data, and judgmental information necessary for the CO to determine a fair and reasonable price and/or to determine realism. Such data may include the identical types of data as certified cost or pricing data, but without the certification. The data may also include any information reasonably required to explain the offeror's estimating process. The CO has the discretion to determine the level of cost or pricing data required to ensure prices are fair and reasonable. Cost or 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. When deciding 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. Read more in AMS Guidance T3.2.3 A.1.a.3.