



**DCMA**

# **National Contract Management Assn (NCMA) and Association of Government Accountants (AGA) Seminar**

## **Analyzing Material and Subcontract Costs**

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**Presented by:** LeeAnn Engle, DCMA Cost and Pricing Center, Western Hub  
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- **How the Government evaluates proposed Material and Subcontract Costs**
- **How the Government evaluates Cost Realism**
- **How the Government evaluates the Prime Contractor's Cost/Price Analysis**
- **Why a Subcontractor should or should not provide their cost or pricing data to the Prime Contractor**
- **When can/should a Prime Contractor request field pricing assistance from DCMA/DCAA**

- **FAR Subpart 15.4 – Contract Pricing**
  - Prescribes the cost and price negotiation policies and procedures for pricing negotiated prime contracts (including subcontracts) and contract modifications
- **FAR 15.402 – Pricing Policy**
  - Contracting officers shall purchase supplies and services from responsible sources at fair and reasonable prices
  - Establishing price reasonableness involves obtaining the type and quantity of data necessary to do so
    - Certified cost or pricing data
    - Data other than certified cost or pricing data
- **FAR 15.404 – Proposal Analysis**
  - The objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable.
  - Price analysis shall be used when certified cost or pricing data are not required
  - Cost analysis shall be used to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required
    - Price analysis should be used when certified cost or pricing data are required to verify that the overall price offered is fair and reasonable
  - Cost analysis may also be used to evaluate data other than certified cost or pricing data to determine cost reasonableness or cost realism when a fair and reasonable price cannot be determined through price analysis alone for commercial or non-commercial items

- **FAR Subpart 15.404-3 – Subcontract Pricing Considerations**
  - The contracting officer is responsible for the determination of a fair and reasonable price for the prime contract, *including subcontracting costs*
    - The contracting officer should consider whether a contractor or subcontractor has an approved purchasing system, has performed cost or price analysis of proposed subcontractor prices, or has negotiated the subcontract prices before negotiation of the prime contract, in determining the reasonableness of the prime contract price. This does not relieve the contracting officer from the responsibility to analyze the contractor's submission, including subcontractor's cost or pricing data.

- **FAR Subpart 15.305 – Proposal Evaluation**

- When contracting on a cost-reimbursement basis, evaluations shall include a cost realism analysis to determine:
  - What the Government should realistically expect to pay for the proposed effort
  - The offeror's understanding of the work
  - The offeror's ability to perform the contract.
- Cost realism analyses may also be used on fixed-price incentive contracts or, in exceptional cases, on other competitive fixed-price-type contracts.

- **FAR 15.404 – Proposal Analysis**

- 15.404-1(d) Cost realism analysis
  - The process of independently reviewing and evaluating specific elements of each offeror's proposed cost estimate to determine whether the estimated proposed cost elements are realistic for the work to be performed; reflect a clear understanding of the requirements; and are consistent with the unique methods of performance and materials described in the offeror's technical proposal
  - Shall be performed on cost-reimbursement contracts to determine the probable cost of performance for each offeror
  - May also be used on competitive fixed-price incentive contracts or, in exceptional cases, on other competitive fixed-price-type contracts when new requirements may not be fully understood by competing offerors, there are quality concerns, or past experience indicates that contractors' proposed costs have resulted in quality or service shortfalls

- **The prime contractor's cost or price analysis of proposed subcontractor prices is one of the elements the contracting offer considers in determining the reasonableness of the prime contract price**
  - Did the analysis include a price analysis when cost or pricing data are not required and was it reasonable?
  - Did the analysis include a cost analysis to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required and was it reasonable?
  - Did the analysis include a technical evaluation and was it reasonable?
  - If the subcontractor asserted commerciality, did the prime adequately evaluate the proposal for both commerciality and price reasonableness?
  - If the prime were denied access to any of the subcontractor's records, was field pricing assistance requested from the appropriate DCMA or DCAA office?
  - Does the prime contractor have approved estimating and purchasing systems?
  - Does the subcontractor have approved estimating and purchasing systems?
- **The existence of the prime contractor's analysis does not relieve the contracting officer from the responsibility to analyze the contractor's submission, including subcontractor's cost or pricing data**
- **Remember, the contracting officer is responsible for the determination of a fair and reasonable price for the prime contract, *including subcontracting costs***

- **At the discretion of the subcontractor**
- **When there is no denial of records access, the prime contractor typically conducts their own in-depth cost analysis of all cost elements, including rates and factors**
  - Increased understanding by the prime of the subcontractor's business practices and proposed cost or pricing data
  - Potential reductions in analysis and negotiation time-lines since the prime does not have to wait for other parties to complete the rate and factor analysis
- **When the Subcontractor denies the Prime access to their records, the Prime Contractor should request field pricing assistance from the appropriate DCMA/DCAA office**
  - Prime contractor must wait for the appropriate DCMA/DCAA office to complete their analysis and provide the results before their own analysis can be considered complete, which may delay negotiations

- **When a prime contractor or higher-tier subcontractor is denied access to a subcontractor's records in carrying out the responsibilities at FAR 15.404-3 to conduct price or cost analysis to determine the reasonableness of proposed subcontract prices, field pricing assistance should be requested from the appropriate DCMA/DCAA office**
  - Cognizant DCMA Administrative Contracting Officer (ACO)
  - Cognizant DCAA Auditor
- **Thresholds for DCAA audit assistance (DFARS PGI 215.404-2(c))—**
  - Fixed-price proposals exceeding \$10 million
  - Cost-type proposals exceeding \$100 million
- **A summary of the analysis performed will be furnished to the prime contractor or higher-tier subcontractor in such a way that adheres to the consent or any restrictions of the subcontractor reviewed and prevents disclosure of subcontractor proprietary data**



