



# COST PROPOSAL WORKSHOP

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# Agenda

- Introductions
- RFP Process
- Types of Costs
- Pricing of Direct Costs
- Pricing of Indirect Costs
- Establishing Fee
- Common Mistakes
- DCAA Audit
- Q&A

# RFP Process

- ⦿ Read solicitation in its entirety – then read it again
- ⦿ Determine if spreadsheets are provided in solicitation
  - Create spreadsheets if not included
- ⦿ Are ODC amounts provided in RFP
- ⦿ Build crosswalk of requirements to Technical Volume for consistency

# RFP Process (Cont'd)

- ⦿ Highlight the requirements for the Cost Volume
  - Number of Copies
  - Version of Excel/Word
  - Page limitation, Font, etc.
  - Information to provide
    - Write-up of accounting system
    - Description of costs/Basis of Estimate
    - Financial Statement

# Types of Contracts

- Fixed Price
- Time & Materials (T&M)
- Cost Plus
- NOTE: Cost build-up is the same regardless of contract type. Fee is a distinguishing factor. Layout of pricing will be different based on contract type.

# Fixed Price

## ◎ FAR 16.201

- Fixed-price types of contracts provide for a firm price or, in appropriate cases, an adjustable price. Unless otherwise specified in the contract, the ceiling price or target price is subject to adjustment only by operation of contract clauses providing for equitable adjustment.
- ◎ Price is set upon execution of contract

# Fixed Price (Cont'd)

- FFP contracts place the maximum amount of risk and full responsibility for all cost and profit upon the contractor
- Generally does not require 'approved accounting system'
- Places less administrative burden on the contractor

# Time & Materials

- ◎ FAR 16.601
- ◎ Labor is billed at hourly rate
- ◎ Labor rate is fully burdened to include indirects and profit
- ◎ Labor rates are set upon contract execution
- ◎ Non-labor is billed at actual plus application of indirects (G&A or Material Handling)
- ◎ No Fee/Profit is applied to non-labor costs



# T&M (Cont'd)

- ⦿ A T&M contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.
- ⦿ CO must provide justification for using this contract type

# Cost Reimbursable

- ① FAR 16.603
  - Cost-reimbursement contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract.
- ① Direct costs are billed at incurred value
- ① Indirect rates are applied based on provisional rates
- ① All direct costs should receive indirect allocation

# Cost Reimbursable (Cont'd)

- ① Fee is applied to fully burdened costs, but can be restricted on costs elements
- ① Adjustment for actual indirect rates
- ① DCAA audits through Incurred Cost Submission (ICS)
- ① Must have adequate accounting system

# Types of Costs

- ⦿ Direct Costs
  - Billable
  - Nonbillable
- ⦿ Indirect Costs
- ⦿ Unallowable Costs

# Direct Costs

- ① Direct costs are costs that can be identified specifically with a particular final cost objective. (FAR 2.101)
- ① Costs can be direct, but not always billable to the contract.
- ① Types of direct expenses are labor, materials, subcontractor expenses, travel, other direct costs.

# Pricing of Direct Costs

- ⦿ Understand the Statement of Work
- ⦿ Wages based on verifiable source such as Wage Determination, Current Comparable Wages, Offer Letter, Paid Salary Survey
- ⦿ Non-Labor based on vendor quotes, estimates of occurrence, etc.
- ⦿ Some solicitations will provide non-labor amount to use
- ⦿ Save all documentation used as support for direct costs

# Indirect Costs

- FAR 2.101 – Indirect cost means any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or with a least one intermediate cost objective.
- Examples of indirect costs are rent, general and administrative salaries, insurances, etc.

# Unallowable Costs

- FAR 2.101 – Unallowable cost means any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable.



# Unallowable Costs

- ⦿ Some costs are expressly unallowable:
  - Interest
  - Bad Debt
  - Donations/Contributions
  - Entertainment costs
  - Fines/Penalties/Mischarging
  - Federal Corporate Income Taxes
  - Losses on other contracts

# Unallowable Costs (Cont'd)

- ◎ Some costs are unallowable due to being excessive or not reasonable.
  - Travel exceeding the Federal Travel Regulations
  - Executive salaries exceeding a reasonable limit
  - Bonuses paid outside of a written policy

# Types of Indirect Costs

- Fringe Benefits
- Overhead (On-site/Off-site)
- General & Administrative
- Material Handling
- Subcontractor Handling
- Intermediate (Service Centers)

# Fringe Benefits

- Fringe Benefits are costs paid for the benefit of the employee.
- Examples are payroll taxes, employee insurance, paid leave (holiday, vacation), etc.
- Fringe benefit pools can be segregated on benefits offered to groups of employees. Examples include Full-time employees, Part-time employees, Union employees, etc.

# Overhead

- ⦿ Overhead costs support a specific part or function of a company, but not the entire company.
- ⦿ Generally, related to a group of projects.
- ⦿ Basic definition...there would be no overhead expenses if there were no projects.
- ⦿ Can be segregated by division, on-site, and offsite, etc.

# General & Administrative (G&A)

- ⦿ G&A expenses support the overall management and operation of the business.
- ⦿ A company would still have G&A expenses even if they have no billable work.
- ⦿ Examples include executive costs, accounting, and other corporate type expenses.
- ⦿ Bid and Proposal (B&P) costs are included in G&A after allocation of overhead.

# Distinguishing OH from G&A

- ⦿ In small companies, it's hard to distinguish overhead from G&A.
- ⦿ Generally, if an employee normally charges their labor direct, their indirect expenses would be overhead.
- ⦿ A person that charges their labor to G&A, their indirect expenses would be G&A.
- ⦿ Travel and labor should always be charged to the same accounts.

# Material/Subcontractor Handling

- ⦿ Some contractors group the administrative costs incurred in managing subcontractors and/or purchasing and disseminating large quantities of material into a separate indirect pool.
- ⦿ When these costs are significant, it provides a better allocation to the benefiting cost objective.



# Pricing of Indirect Costs

- Be consistent with current accounting policy
- If variation from current accounting policy, determine impact on other contract, possibly notify CO
- Build rate calculation table for all years of contract; Compare to prior year rate calculation

# POOL CALCULATIONS

- ① The main objective is to apply all indirect costs to the direct costs. (Full cost absorption)
- ① Unallowable costs are not allocated and therefore directly affect net income
- ① There are many methods to allocating indirect costs
- ① Once a method of allocation is used, stay consistent with the application

# FRINGE BENEFIT POOL

- ⦿ The total pool costs are the numerator
- ⦿ The base (or denominator) is usually total labor dollars
- ⦿ Example:
  - $\text{Total Fringe Expense} / \text{Total Labor} = \text{Rate \%}$
- ⦿ Rate is applied to each type of labor for application to other pools

# FRINGE POOL (CONT'D)

- ⦿ May segregate between types of employee groups
  - Full Time
  - Part Time
  - Union
  - Service Contract Act
  - Davis Bacon Act

# OVERHEAD POOL

- ⦿ The overhead expenses are the numerator
- ⦿ Fringe applied to overhead labor is also included
- ⦿ The numbers used for the base can vary
  - Some companies use direct labor plus fringe applied to direct labor (including B&P labor and fringe)
  - Some companies use direct labor and B&P labor (no fringe)
  - Some companies combine Fringe and Overhead into one pool (two-tier method)

# OVERHEAD POOL (CONT'D)

## ⦿ Three-tier Method

- Fringe on Direct Labor is included in the base of Overhead
- Under this method, the fringe rate is applied directly to the contract

## ⦿ Two-tier Method

- Fringe becomes part of Overhead and does not apply directly to the contracts
- The base of Overhead is Direct Labor (without Fringe)

# OVERHEAD (CONT'D)

- ⦿ May segregate based on various factors:
  - Lines of work
  - Geographic Region
  - Manufacturing vs. Services
  - Other competitive factors

# G&A POOL

- ⦿ General & Administrative expenses (including fringe applied to G&A labor) is included in the pool
- ⦿ B&P costs (including fringe and overhead applied to B&P labor) are included in the G&A pool
- ⦿ Independent Research & Development costs (including fringe and overhead applied to IR&D labor) are included in the G&A pool



# G&A POOL (CONT'D)

- ① The base of G&A can vary between companies
- ① Most common base is 'Total Cost'. All other allowable costs of the company (excluding G&A costs) are included in the base
- ① All costs should receive an allocation

# MATERIAL/SUBCONTRACTOR HANDLING

- ⦿ Material Handling or Subcontractor Handling pools are generally a subset of G&A
- ⦿ The costs in the base are generally not included in G&A
- ⦿ Most beneficial if costs are significant

# INTERMEDIATE POOLS / SERVICE CENTERS

- ◉ Intermediate pools are costs that are allocated to another indirect cost pool. They are not applied directly to a project. Examples include Fringe Benefits that are included in the Overhead rate or Facility service centers
- ◉ Service Centers are sometimes intermediate pools. Facility costs can be part of a service center to be allocated between overhead and G&A. Machinery costs can be a service center allocated to projects or types of overhead

# WHEN ARE INDIRECT RATES IMPORTANT

- ① Flexibly Priced Contracts Including:
  - Cost reimbursable contracts
    - Cost Type contract bids and incurred cost proposals
  - Time & Materials contracts
    - Where burdens are applied to the cost reimbursable (“Materials”) portion of contract
    - Buildup/creation of T&M hourly rates
  - Fixed Price contracts
    - When cost or pricing data is required during the proposal process
    - When there is an Incentive Fee component
    - When there is a materials/ODC component
- ① Contracts subject to Cost Accounting Standards (“CAS”)
- ① Contract Termination Claims or Request for Equitable Adjustments (“REA”)

# INDIRECT RATES IN THE CONTRACT LIFE CYCLE

## ◎ Forward Pricing Rates

- Represents the best estimate of indirect cost rates at the time of submission
- Used to estimate indirect costs for future periods of Government contract work

## ◎ Provisional Billing Rates

- Used for interim billing of costs
- Established by Contracting Officer or Auditor based on contractor billing rates submission, recent evaluation of indirect rates or Forward Pricing Rates
- Revised as necessary based on mutual agreement
- Should be updated soon after year-end

# INDIRECT RATES IN THE CONTRACT LIFE CYCLE

- Final Indirect Rates
  - Due 6 months after year-end (Incurred Cost Submission)
  - Final billings for completed contracts are due within 120 days after settlement of rates
  - Quick-Closeout Procedures
- Negotiated or audit-determined final rates used for:
  - Billing updates (impact differences in provisional rates)
  - Contract close-out
  - Preparation of completion vouchers (due within 120 days after settlement of final indirect costs rates for contracts)
  - Determination of final incentive/award fees

# DETERMINING POOLS

- Cost-benefit theme
  - Identify the “beneficial or causal” relationship between costs and cost objectives
- Identify cost objectives
  - Intermediate
  - Final
- Identify direct costs associated with the cost objective
- Pool indirect costs into logical groupings based upon causal-beneficial relationships
  - Example: fringe, overhead, G&A
- Segregate any FAR Part 31 unallowable costs and remove from pools
- Select Appropriate Cost Allocation Base Unit
  - Example: labor dollars, total cost input dollars, headcount, etc
- Calculate Rate per Unit of Allocation Base
  - Pool / Base Units
- Allocate Costs to Cost Objectives

# RATE STRUCTURE KEYS TO SUCCESS

- ⦿ Rate structures should be suited to match a given business unit's operations
- ⦿ The allocation base should be the best representation of the causal relationship between costs and cost objectives
- ⦿ Rate structures should be designed for:
  - Maximum cost recoverability
  - Competiveness
- ⦿ Intermediate allocations (e.g. service centers) can more accurately allocate costs, but increase complexity
- ⦿ Remember the consistency requirements



# Fee – FAR 15.404-4

- ⦿ Fee is based on risk
- ⦿ Types of Fee
  - Fixed
  - Award
  - Incentive

# Common Mistakes

- ⦿ Not understanding (or following) requirements of the solicitation
- ⦿ Missing submission deadline
- ⦿ Inconsistencies between Cost and Technical Volume
- ⦿ Variations on accounting policies
- ⦿ Lack of supporting documentation for costs

# DCAA Audits

- ⦿ Proposal Audit
  - Support the pricing – Direct and Indirect
  - Show indirect history
- ⦿ Accounting System
- ⦿ Financial Capability

# QUESTIONS

# Internet Sites of Interest

- Per Diem Rates -  
<http://www.gsa.gov/portal/category/21287>
- DCAA – [www.DCAA.mil](http://www.DCAA.mil)
- FAR - <https://www.acquisition.gov/far/>
- SCS – [www.SCSConsults.com](http://www.SCSConsults.com)
- PDS – [www.PDSConsults.com](http://www.PDSConsults.com)

# Resources

- **Defense Contract Audit Agency**  
<http://www.dcaa.mil/>
- **FAR Regulations**  
<http://farsite.hill.af.mil/>  
<http://www.arnet.gov/far>  
<http://www.dtic.mil/dfars>
- **FAR Circulars**  
<https://www.acquisition.gov/far/fac.html>
- **Per Diem Rates**  
<http://www.defensetravel.dod.mil/perdiem/perdiemrates.html>
- **GSA (Travel)** <http://www.gsa.gov/portal/category/21287>



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