

Cost Estimating System

Brief Overview and Insight

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Contractor Business Systems 5/17/17

DISCLAIMER: The views expressed are not necessarily representative of DCMA. We are here to present on behalf of NCMA, Wisconsin Chapter. Although much of the information contained within is public knowledge, any opinions expressed are those of the presenter alone. If you have any questions, feel free to contact Jason Rath sack at visn12jr@gmail.com

Agenda

A. Overview

B. Applicability

C. Administrative Procedures

D. System Requirements

The FAR-side of the Planet



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FAR 15.407-5 – Generic “all”

DFARS 215.407-5-70 – Applicability & Procedures

DFARS PGI 215.407-5 – Timelines & Corrective Action

DFARS 252.215-7002 – System Requirements

DFARS 252.242-7005 – Withholds & Corrective Action

DCMA INST 133 – Estimating System Review

DCMA INST 131 – Contractor Business Systems

What is a Cost Estimating System?

“**Estimating system**” means the Contractor's policies, procedures, and practices for **budgeting and planning controls**, and **generating estimates of costs** and other data included in proposals submitted to customers in the expectation of receiving contract awards.

- 1) Organizational structure;
- 2) Established lines of authority, duties, and responsibilities;
- 3) Internal controls and managerial reviews;
- 4) Flow of work, coordination, and communication; and
- 5) Budgeting, planning, estimating methods, techniques, accumulation of historical costs, and other analyses used to generate cost estimates.

OK – but why does the Government Care?

FAR 15.402 -- Pricing Policy(a)

Contracting officers shall purchase supplies and services from responsible sources at fair and reasonable prices.

Applicability – why should a contractor care?

- **FAR 15.407-5** – Mutual benefits, source selection impact but no FAR Clause
- **DFARS 215.407-5** – **ALL** contractors are required to have an acceptable estimating system
- **DFARS 215.408** – Include DFARS 252.215-7002 in all contracts awarded on Certified Cost or Pricing Data (CCoP)

When is CCPD required? FAR 15.403-4

- **Negotiated contract > \$750K**
- Prime Contract
- The award of a subcontract at any tier (if the contractor and each higher-tier subcontractor were required to furnish data)
- The modification of any negotiated contract or subcontracts

Exceptions: competition, prices set by law or regs, commercial item, etc. If none apply, waiver can be requested under the exception at 15.403-1(b)(4)

Applicability – why should you care?

- **FAR 15.407-5** – Mutual benefits, source selection impact but no FAR Clause
- **DFARS 215.407-5-70(b)(1)** – **ALL** contractors are required to have an acceptable estimating system
- **DFARS 215.408** – Include DFARS 252.215-7002 in all contracts awarded on CCoP
- **DFARS 252.215-7002(b)** – The Contractor shall establish, maintain, and comply with an acceptable estimating system.

Applicability – why should a contractor care?

- FAR 15.407-5 – Mutual benefits, source selection impact but no FAR Clause
- DFARS 252.215-70(b)(1) – ALL contractors are required to have an acceptable estimating system
- DFARS 252.215-7002 – Include DFARS 252.215-7002 in all contracts awarded on CC&P
- DFARS 252.215-7002(b) – The Contractor shall establish, maintain, and comply with an **acceptable estimating system.**

What is an Estimating System?

“**Acceptable estimating system**” means an estimating system that complies with the 17 system criteria in DFARS 252.215-7002, and provides for a system that (4 conditions)—

1. Is maintained, reliable, and consistently applied;
2. Produces verifiable, supportable, documented, and timely cost estimates that are an acceptable basis for negotiation of fair and reasonable prices;
3. Is consistent with and integrated with the Contractor’s related management systems; and
4. Is subject to applicable financial control systems.

What is an Estimating System?

“**Acceptable estimating system**” means an estimating system that complies with the **17 system criteria** in DFARS 252.215-7002, and provides for a system that **(4 conditions)**—

1. Is **maintained, reliable, and consistently** applied;
2. Produces **verifiable, supportable, documented, and timely** cost estimates that are an acceptable basis for negotiation of fair and reasonable prices;
3. Is **consistent with and integrated** with the contractor's related management systems; and
4. Is subject to application of **financial control** systems.

Applicability – why should you care?

- DFARS 215.407-5; Estimating Systems - Disclosure
 - LARGE BUSINESSES are subject to estimating system *disclosure, maintenance, and review requirements* if;

= or **>\$50 Million in Prime or Subcontracts** for which certified cost or pricing data were required

= **\$10 - \$50 Million in Prime or Sub** if the PCO and ACO agree its in the best interest of the Gov't

What about small businesses or contracts <\$10 M?

Risk Based - High % Gov't Work and/or historical estimating issues

Applicability – why should you care?

- DFARS 215.407-5; Estimating Systems - Disclosure

(b) *General*. The Contractor shall establish, maintain, and comply with an acceptable estimating system.



(c) *Applicability*. Paragraphs (d) and (e) of this clause apply if the Contractor is a large business and either—



All businesses with a contract awarded on the basis of CCoP are subject to Estimating System requirements

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CC&P

- Large and Small required based on 4 conditions
- Reportable under CBAR

\$10M

- Large business may be subject to 17 System Requirements based on ACO/PCO concurrence

\$50M

- Large Business subject to 17 System Requirements
- Withholds if contractor has a CAS Covered contract

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System Requirements – *LARGE BUSINESS ONLY*

- **DFARS 252.215-7002(d)(4)** – an acceptable estimating system shall accomplish 17 functions
 - (i) Establish clear responsibility for preparation, review, and approval of cost estimates and budgets.
 - (ii) Provide a written description of the organization and duties of the personnel responsible for preparing, reviewing, and approving cost estimates and budgets.
 - (iii) Ensure that relevant personnel have sufficient training, experience, and guidance to perform estimating and budgeting tasks in accordance with the Contractor's established procedures.
 - (iv) Identify and document the sources of data and the estimating methods and rationale used in developing cost estimates and budgets.
 - (v) Provide for adequate supervision throughout the estimating and budgeting process.
 - (vi) Provide for consistent application of estimating and budgeting techniques.
 - (vii) Provide for detection and timely correction of errors.
 - (viii) Protect against cost duplication and omissions.
 - (ix) Provide for the use of historical experience, including historical vendor pricing data, where appropriate.

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System Requirements – *LARGE BUSINESS ONLY*

- **DFARS 252.215-7002(d)(4)** – an acceptable estimating system shall accomplish 17 functions

(x) Require use of appropriate analytical methods.

(xi) Integrate data and information available from other management systems.

(xii) Require management review, including verification of compliance with the company's estimating and budgeting policies, procedures, and practices.

(xiii) Provide for internal review of, and accountability for, the acceptability of the estimating system, including the budgetary data supporting indirect cost estimates and comparisons of projected results to actual results, and an analysis of any differences.

(xiv) Provide procedures to update cost estimates and notify the Contracting Officer in a timely manner throughout the negotiation process.

(xv) Provide procedures that ensure subcontract prices are reasonable based on a documented review and analysis provided with the prime proposal, when practicable.

(xvi) Provide estimating and budgeting practices that consistently generate sound proposals that are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price.

(xvii) Have an adequate system description, including policies, procedures, and estimating and budgeting practices, that comply with the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement.

- **252.215-7002(d)(4); System Requirements**

i, ii, iii, v, xii, xiii

“WHO” is responsible for proposal preparation, compliance, accuracy

iv, vi, vii, viii, ix, x

“WHAT” is your methodology for developing basis of estimate

xi, xiv, xv, xvi, xvii

“How” are you ensuring accuracy and compliance with FAR/DFARS

Where is the RISK?

iv, vi, vii, viii, ix, x:
“WHAT”

xi, xiv, xv, xvi, xvii:
“How”

R&D, New
Production, LRIP,
Labor Intensive

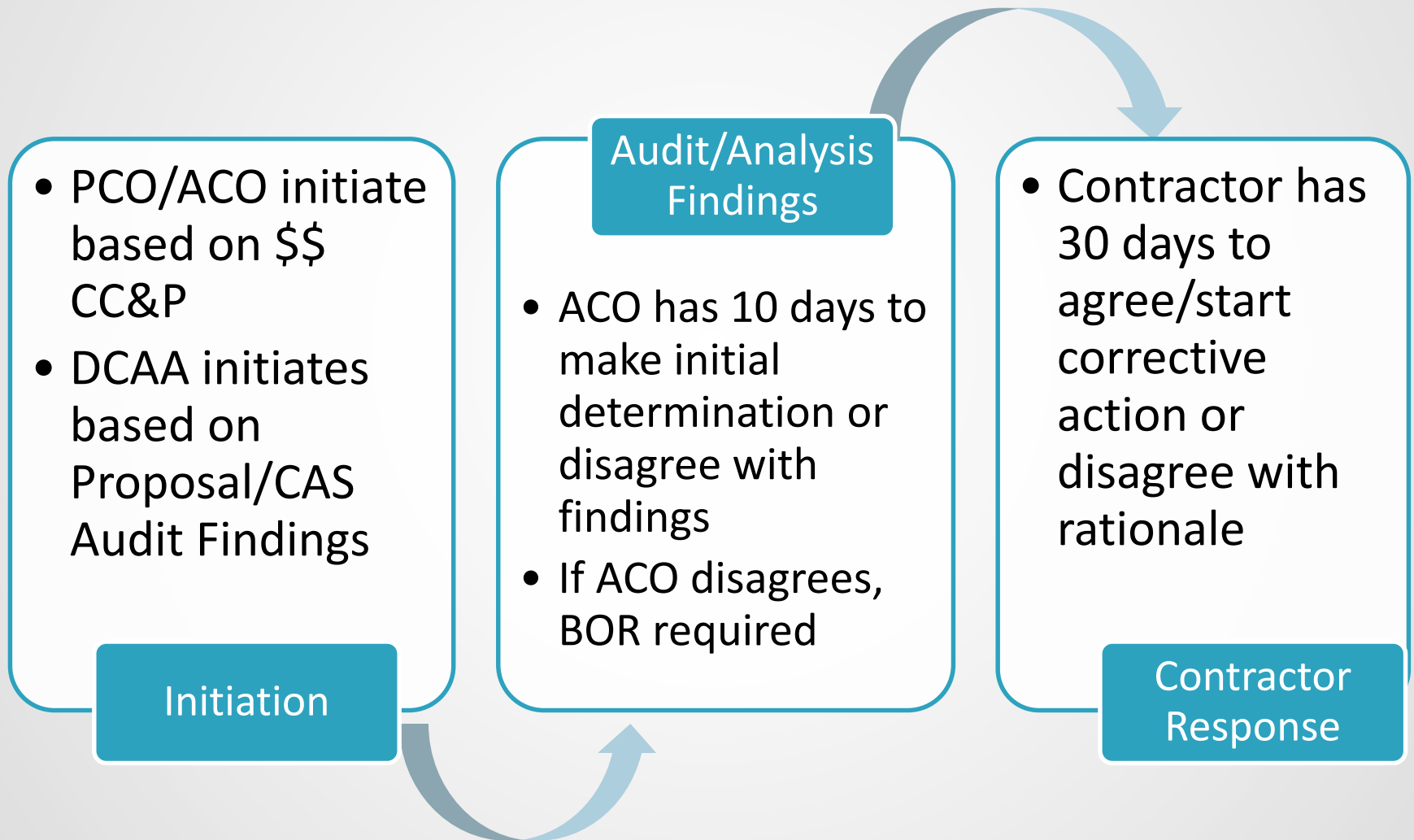
Labor
Material
ODCs
Indirect Costs

Mature Program,
Heavy Material,
Heavy SubK

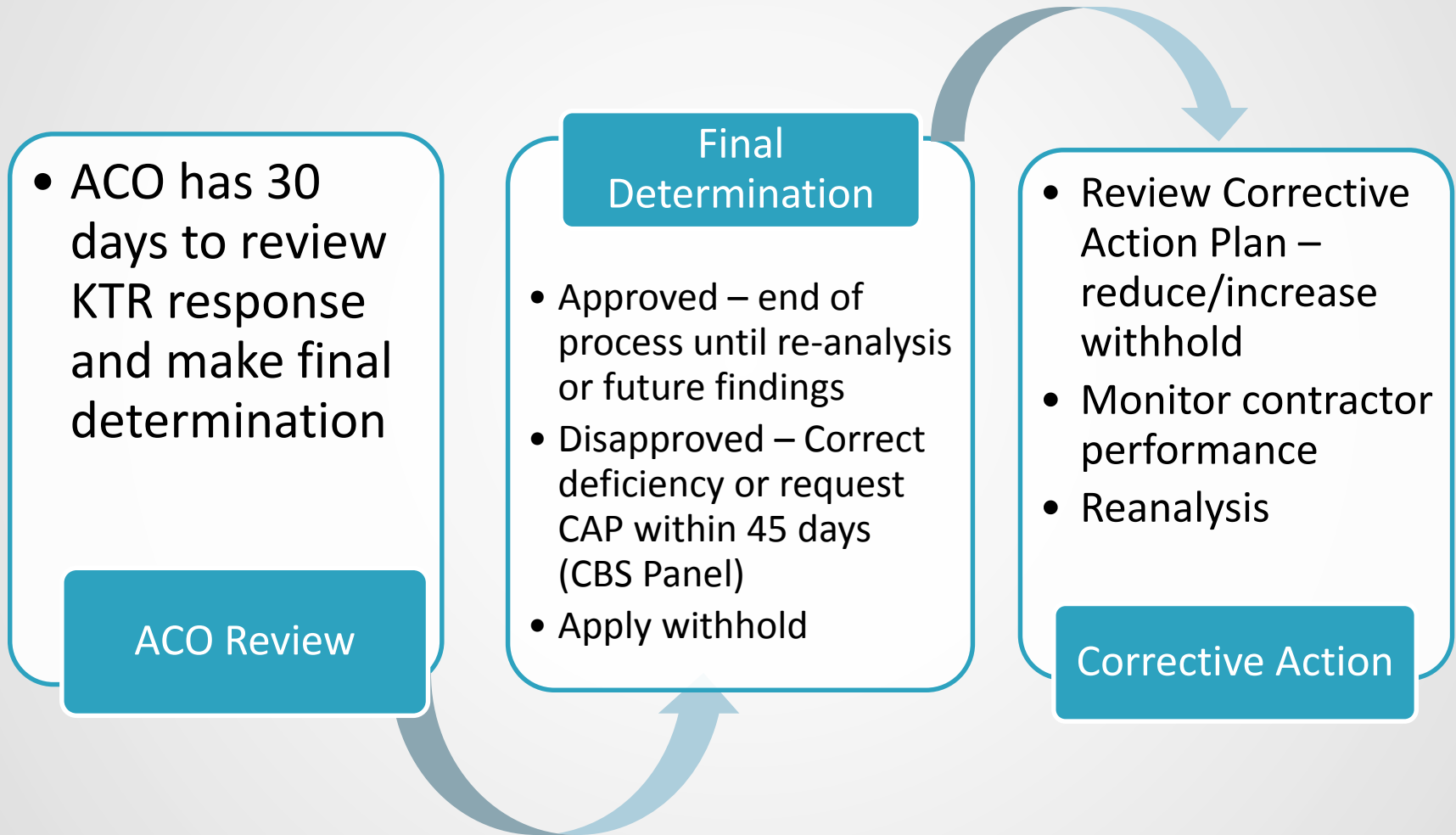
Review Process – How to Prepare

- Reliability of DATA (NCMA Article)

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Review Process – How to Prepare

- Know the system requirements
- Review DCAA “Audit Program for Estimating System” on DCAA Website
- Internal policies – document, update, practice
- Be able to explain your basis of estimate – CERS, Historical actuals, budget
- Understand FAR requirements – subK, CC&P, Commercial Assertion

Available Resources

- DCAA CAM: <http://www.dcaa.mil/>
- DCMA Pricing Guide:
 - <http://www.dcma.mil/policy/>
- Contract Pricing and Reference Guides
 - <https://acc.dau.mil/cprg>
- Defense Procurement & Acquisition Policy
 - <http://www.acq.osd.mil/dpap/cpf/>
- WIFCON
 - <http://www.wifcon.com/>

Questions?

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