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Price Analysis on Defense Logistics Agency (DLA) Contracts

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Introduction

Over the last decade, the federal acquisition workforce has had to adapt to the need for new skill sets. Procurement reforms in the late 1990s required contracting specialists to have a greater knowledge of market conditions, industry trends, and market prices. Using market forces to determine reasonable prices has required an increase in both market research and price analysis methods. Most contracts pricing of acquisitions required cost analysis before these reforms became part of contracting regulations. These new regulations dictate a skill set for conducting price analysis that is largely missing from both the workplace and Defense Acquisitions University (DAU) existing curriculum. Since 2001, the Department of Defense Inspector General (DoDIG) and the Government Accountability Office (GAO) have issued several reviews of selected agencies discussing concerns about commercial and noncommercial prices of spare parts and services. Most of these reports have identified situations in which contracting officers failed to obtain adequate pricing information for justifying price reasonableness. In conclusion, both the DoDIG and the GAO have found that the contracting officers need improved expertise in both understanding and conducting price/cost analysis. The current gap in knowledge contributes to agencies missing cost saving opportunities as well as ventures to improve acquisition outcomes. Exercising appropriate price analysis methods that come from adequate price analysis guidance and training would address this gap.

Purpose

The purpose of this research is to identify the price analysis techniques being used and documented in the contracting file, and to explore potential improvements in conducting price analysis within the Defense Logistics Agency (DLA). This project builds on research previously conducted on Department of Defense (DoD) contracts (Redfern, Nelson, & White, 2013; Gera & Maddox, 2013; Maddox, Fox, & Gera, 2014).



Findings and Analysis

1a. Do Pricing Memoranda Deviate From Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS) Requirements, and DFARS Procedures, Guidance, and Information (PGI) Procedures?

We look specifically at how the contract file pricing memoranda deviated from Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS) requirements and DFARS Procedures, Guidance, and Information (PGI) procedures.

This question generated multiple findings. Rather than grouping our findings into one answer, the authors have addressed them individually below:

1a(i). Inadequate Documentation Finding

A number of contract files that we reviewed did not demonstrate that prices paid were reasonable due to inadequate FAR price analysis methods, as depicted in Table 1: Summary of Inadequately Justified Price Analysis Documentation in the Files by FAR Price Analysis Technique.



Table 1. Summary of Inadequately Justified Price Analysis Documentation in the Files by Price Analysis Technique

Price Analysis Techniques	Total	Supplies	Services	Construction
Inadequate price competition	10 of 25	0	22	3
Acceptance of prior prices without establishing reasonableness and/or appropriate adjustments made for differences	6 of 14	0	6	0
Incomplete references to current competitive price list	6 of 16	1	15	0
Incomplete comparison with IGCE or use of unreliable IGCEs	25 of 38	0	36	2
Incomplete statements based on references to market research	5 of 7	0	7	0
Offeror did not provide data that was appropriate	0 of 4	0	0	0
None of the above techniques used in pricing documentation	2 of 2	1	0	1
Totals of inadequate price analysis documentation for price reasonableness justification	54 of 106			

1a(i). Analysis

We noted that the file review verified the type of price analysis documented. Poor documentation in the files influenced our decisions to rate a pricing memo as justifiable or not. From this data, we determined that the personnel involved in performing these contract actions did not include sufficient documentation to support the price analysis method used as required by FAR and DFARS. Considering the number of inadequate price analysis justifications found in the memos sampled, it appears that contracting personnel do not know how to appropriately perform and document price analysis. In particular, two types of price analysis—references to market research and IGCEs—were performed and documented incorrectly more than 50% of the time. Previous price documentations were unjustified 43% of the time and 40% of price competition was found to be inadequate.

1a(ii). Comparison of Current Offered Pricing Findings

In 10 cases of the 25 currently offered prices, evidence showed that the proposed prices were not truly competitive.



Five pricing memorandums included some comparisons of current proposed (offered) prices when the lowest price was less than 80% of the next lowest price. For example, if the prices are \$10, \$50, and \$55, respectively, then less than 80% would be anything lower than 80% x \$50, which equals \$40. So, the lower quote of \$10 would be considered smaller.

In two files, a price from a technically unacceptable offeror was nonetheless used to make a price comparison.

There were nine instances in the sample of 66 where factors other than price determined the source selection, but price remained a substantial factor in 100% of those cases. Three contracts in this category were awarded to an offeror that was not the lowest offeror; however, two of the three had a statement of price reasonableness that *did not justify* the choice of the higher offer in the file.

The inappropriate comparisons certainly raise the issue that although competition is present and sought, is there actual price competition?

1a(ii). Analysis

Proposed prices that are not within 20% of the next lowest price raise questions about the reliability of the proposed prices, and the existence of actual price competition. This could indicate a mistake in the offered price, a misunderstanding of the contract requirements, etc. In few cases, documentation included some determination of why such a large gap separated the lowest price from the next valid price or a price verification request by the CO to the lowest offeror.

According to the FAR Part 6, the award of a contract to a supplier based on the lowest evaluated price alone can be a false economy if there is subsequent default, late deliveries, or other unsatisfactory performance resulting in additional contractual or administrative costs. While it is important that Government purchases be made at the lowest price, this does not require an award to a supplier solely because that supplier submits the lowest offer. The price from any offer that would not be considered for contract award such as technical unacceptability should not be used as a basis for price analysis. According to FAR 15, in awarding to any source other than the lowest priced offeror, the perceived benefits of a higher priced proposal shall merit the additional cost, and the rationale for tradeoffs must be documented in the file. Adequate price competition does not necessarily in of itself make a price reasonable.

1a(iii). Comparison of Proposed Price to Previous Price (Historical) and Sole Source Commercial Findings

Fourteen contract actions compared proposed prices to previous (historical) prices paid. In the six instances that had an invalid previous price documented in the file, a previous price could not be validated for one or more of the reasons displayed in Figure 1 (some had multiple disqualifying reasons). In two of the six, the previous price had a significant time lapse between the current and previous price. In three cases of the six, significant changes affected the terms and conditions. In four of the six cases, the reasonableness of the previous price seemed uncertain.



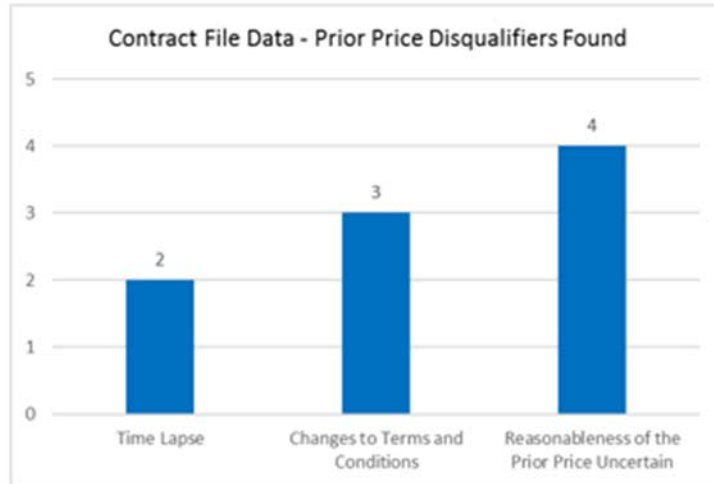


Figure 1. Contract File Data—Prior Price Disqualifiers

We found 26 items that were both Commercial and considered a sole source (see Figure 2). Of the 26, 10 had sufficient data to determine price reasonableness. In the 16 in which data did not substantiate price reasonableness, the CO requested data from the offeror only four times. Offeror provided the requested data all four times. In one case, the requested data had not been reviewed for contract award.

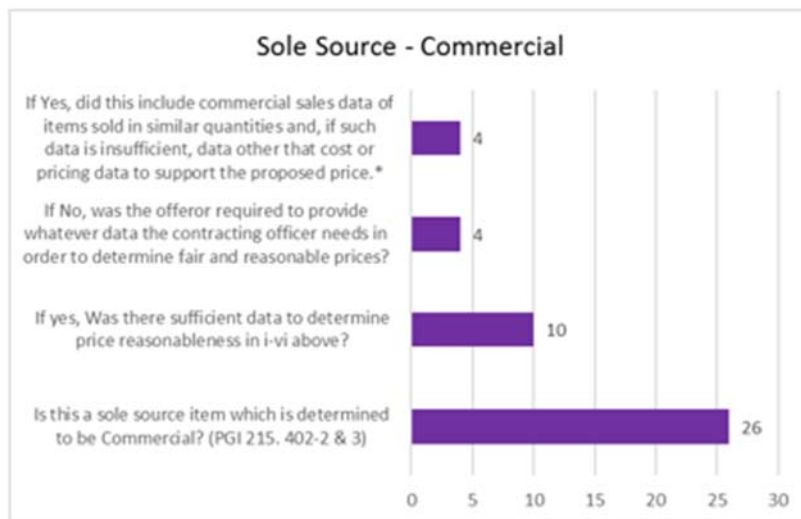


Figure 2. Commercial Sole Source

1a(iii). Analysis

If using invalid previous prices, then price reasonableness has not been determined. For example, it would not be sufficient to use price(s) from a database paid for by another contracting officer without understanding the type of analysis that was performed to determine the price. The DoD strengthened guidance on this subject in PGI 215.403–3(4) per below:

Reliance on prior prices paid by the Government. Before relying on a prior price paid by the Government, **the contracting officer must verify and document that sufficient analysis was performed to determine that the prior price was fair and reasonable.** Sometimes, due to exigent situations,



supplies or services are purchased even though an adequate price or cost analysis could not be performed. The problem is exacerbated when other contracting officers assume these prices were adequately analyzed and determined to be fair and reasonable. **The contracting officer also must verify that the prices previously paid were for quantities consistent with the current solicitation. Not verifying that a previous analysis was performed, or the consistencies in quantities, has been a recurring issue on sole source commercial items reported by oversight organizations.** Sole source commercial items require extra attention to verify that previous prices paid on Government contracts were sufficiently analyzed and determined to be fair and reasonable. At a minimum, a contracting officer reviewing price history shall discuss the basis of previous prices paid with the contracting organization that previously bought the item. These discussions shall be documented in the contract file.

Since previous price comparison is one of the two preferred price analysis techniques, contracting personnel often use it in determining price reasonableness. This method is effective, provided the validity of the comparison (similar items, categories, quantities, quality, qualifications, and/or circumstances), and the reasonableness of the previous price(s) can be established.

In this sample, more than 40% of the previous price comparisons made were invalid since the previous price was not verified. This illustrates why the authors determined that the contracts sampled do deviate from FAR/DFARS/PGI requirements and procedures. Further, if COs are not diligent in validating previous prices prior to using them for current pricing actions, then unreasonable prices can continually perpetuate themselves into future contracting actions.

Adding to the 43% previous price comparisons we found that were invalid, all six were identified as sole source commercial. Current guidance requires extra attention to verify previous prices paid in looking at Sole Source Commercial Items, as stated from PGI 215.403-3(4):

Sole source commercial items require extra attention to verify that previous prices paid on Government contracts were sufficiently analyzed and determined to be fair and reasonable. At a minimum, a contracting officer reviewing price history shall discuss the basis of previous prices paid with the contracting organization that previously bought the item.

Of the six comparisons to previous price that were Sole Source Commercial and were considered unjustified, the CO requested and reviewed additional sales data in only one case. These six were part of the 16 total Sole Source commercial found to have insufficient data to determine price reasonableness.

1b. Do Pricing Memoranda Document the Type of Price Analysis Used in Determining Price? What Price Analysis Methods Are Being Used?

Findings

All of the pricing memos documented some type of price analysis used in determining that the price was reasonable. The research findings show that 25% of files used current competitive prices as a price analysis method (which is 24% of the total files). Comparison with the IGCE was documented in 38 pricing memos out of the 66 files, namely, 36% of the files. Comparison to Competitive Price Lists and through market research were present in 23 of the 66 files, totaling 35%. Previous prices (historical) documentation were



present in 14 of the 66 files, totaling 13%. Comparison to another name was present in two of the 66 files representing 3% of the files, as seen in Figure 3.

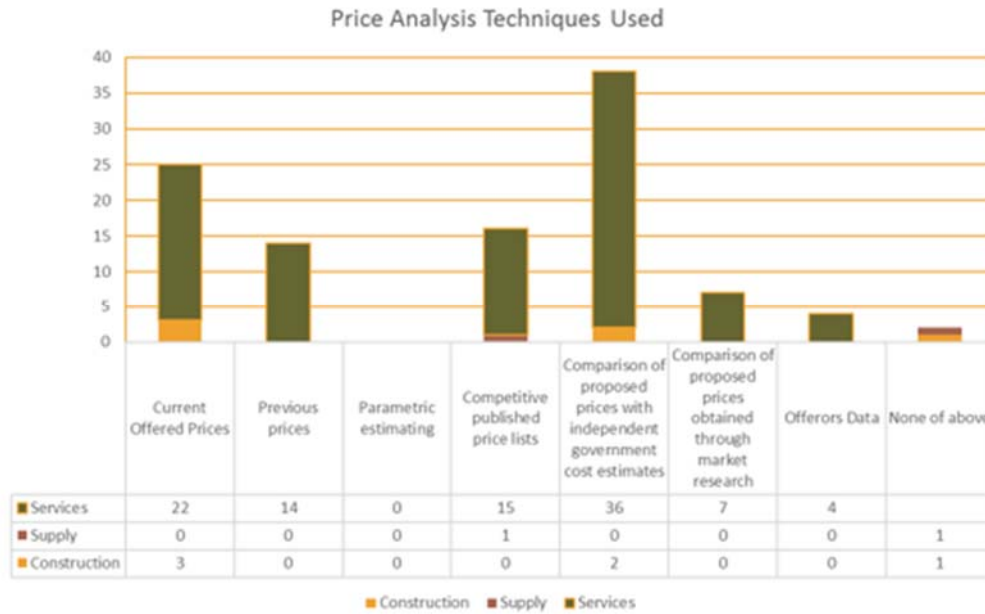


Figure 3. Contract File Data—Price Analysis Techniques Used

Analysis

According to the contract files sampled, comparison with the IGCE led the price analysis techniques used, with current offered prices ranking closely behind. IGCEs are not as reliable as current offered prices, therefore, their usefulness is questioned. Further price analysis techniques should supplement an IGCE.

The application of price analysis techniques is notable. Contracting personnel within the offices sampled recognize the importance of price analysis in determining price reasonableness. However, as discussed in 1ai. (Inadequate Documentation), contracting personnel did not include sufficient documentation to support the price analysis method used as required by FAR and DFARS. Without the proper supporting documentation, the value of the techniques is questionable.

1c. Do Pricing Memoranda Refer to Market Research?

1c. Market Research Findings

Seven contract pricing memoranda reviewed in the contract files used market research to establish price reasonableness, and a majority of the files in the sample contained market research reports as shown in Figure 4. Of the 32 market research reports, 17 (53%) of those contracts addressed the type of pricing data collected, as shown in Figure 5. Fifteen contracts in the sample did not address the type of pricing data collected in the market research report, and 23 contracts in the sample did not have a market research report that should have. In several files, the IGCE and market research report were combined into one document. Note: 11 samples were delivery orders without a requirement for market research, so only 55 files would have required a market research report.



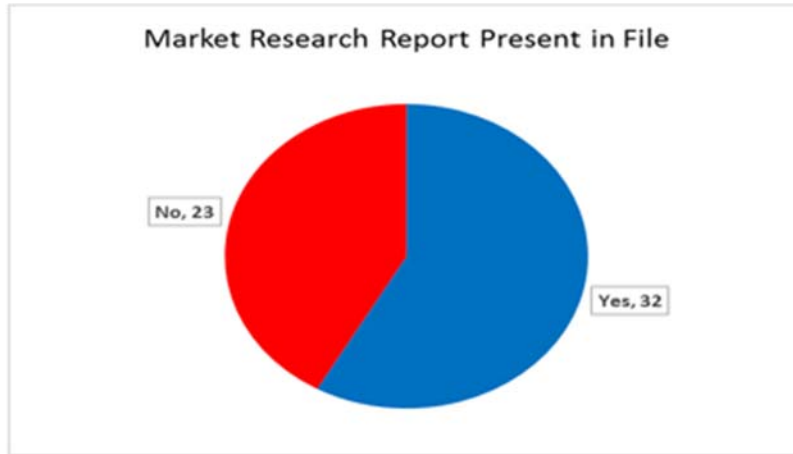


Figure 4. Contract File Data—Market Research Reports

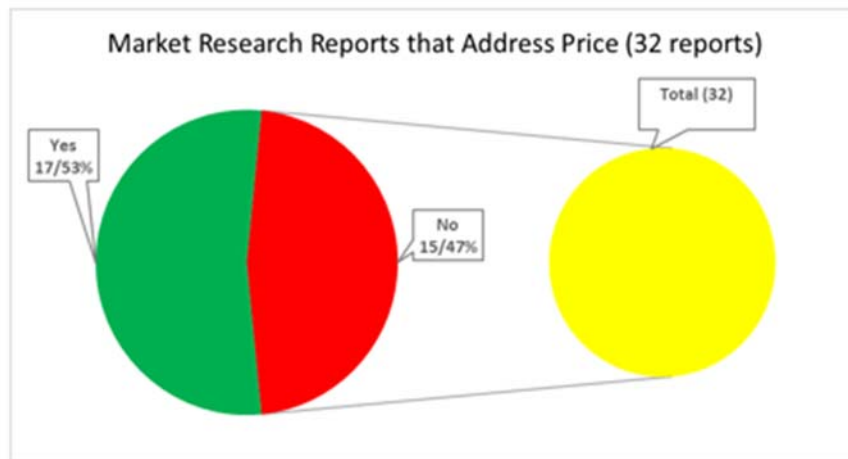


Figure 5. Contract File Data—Market Research Reports That Address Price

Notable Incomplete Statements Based on References to Market Research

- A few memos referred to Market Research as to the type of price analysis used; however, information came from a competitive price list for the price analysis comparison. COs seemed confused on the difference between market research and a competitive price list comparison.
- In using this comparison, buyer stated that he used partner agreements for justifying price. No evidence of partner agreements in file or reference to what specific information from the partner agreement proved useful.
- Buyer makes a price comparison and states that the basis of price justification is through market research. However, no information related to the market since the price used for comparison came from the IGCE. The IGCE was based on GSA schedule labor rates, but no support given for labor hours/mix or travel costs. So, a somewhat confusing PNM with unjustified price comparisons.
- A market survey had been conducted and one quote had been received from the same offeror who won the contract. The buyer used the market survey to justify the price by saying it was a fair market price obtained through

comparison of prices obtained through market research. No other price analysis had been used to justify the price. Three options were exercised from this contract and the buyers state the option prices were based on competition and therefore reasonable. There was no competition on the initial contract. Note: No IGCE appeared in the file.

1c. Analysis

Knowledge of marketplace suppliers and prices can be critical to the government's ability to negotiate a reasonable price. Poorly done market research lessens an activity's ability to achieve fair and reasonable prices. The authors found that market research appeared in a majority of the files we reviewed and were generally customer/requirements personnel generated. Market research does improve the buyers' understanding of pricing in the marketplace. The authors didn't look in depth at the quality of the market research reports but did note that market research reports addressed price in 53% of those examined. So, we conclude that the market research reports that examined pricing should have improved the buyers' understanding of pricing in the marketplace.

1d. What Are the Validity of the IGCEs and Contracting Officer's/Specialist's Interpretation and Use of the IGCEs in Pricing Memoranda?

1d. IGCE Findings

The IGCE has two roles: First, it supports what the customer and contracting offices believe is the "should price" and should be completed before the receipt of the price proposal and second, as a price analysis technique per FAR, parts 13 and 15. We will examine both here since they work together.

Developing and documenting an IGCE by its creator is a critical phase in the planning of the acquisition. The customer in the requiring activity is responsible for these actions. It must be substantiated with valid supporting documentation in order to be useful as a "should price," or a pricing technique, or both. The COs must be concerned with the reliability of the IGCE since it can be used as a proposal analysis comparison to determine a proposed price as fair and reasonable according to IAW 15.404–1(b)(v). When the IGCE is not substantiated, it should not be used as a pricing technique in validating a proposed price.

e looked at each of the IGCEs and concluded whether the "should price" was substantiated. In determining substantiation, we looked primarily at the source of data and the estimator's assessment of that data. We also looked at how the CO or buyer assessed the reliability of the IGCE. Just because we found an IGCE substantiated didn't absolve the CO from determining its reliability. Lastly, we assessed the validity of the COs' comparison of the IGCE to the proposed price. The number of substantiated IGCEs are not comparable to whether the CO assessed the reliability of the IGCE. In looking at the reliability of the IGCE, we only looked at IGCEs fulfilling the second role as a pricing technique.

The documentation stated that an IGCE was in 63 of the 66 contracts sampled (95%). Forty-two IGCEs were substantiated (63.6%) by previous purchase, catalogs, published price lists, contact with a vendor, or other, typically a government technical report as seen in Figures 6 and 7. Essentially, the developer of the IGCE explained the sources of information used to make the estimate. Fifty-seven of the 58 service contracts had an IGCE in the file; one of the supply contracts had an IGCE in the file, and all six construction contracts had an IGCE in the file.



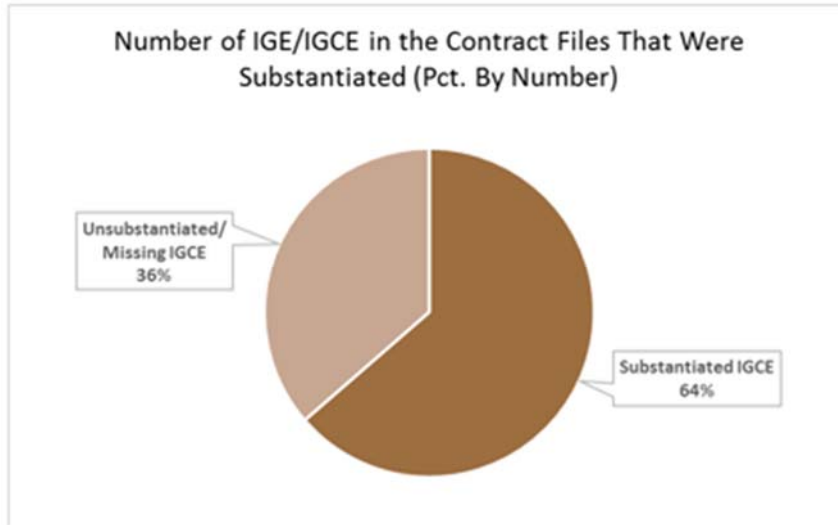


Figure 6. Number of IGE/ IGCEs Substantiated in the Contract Files

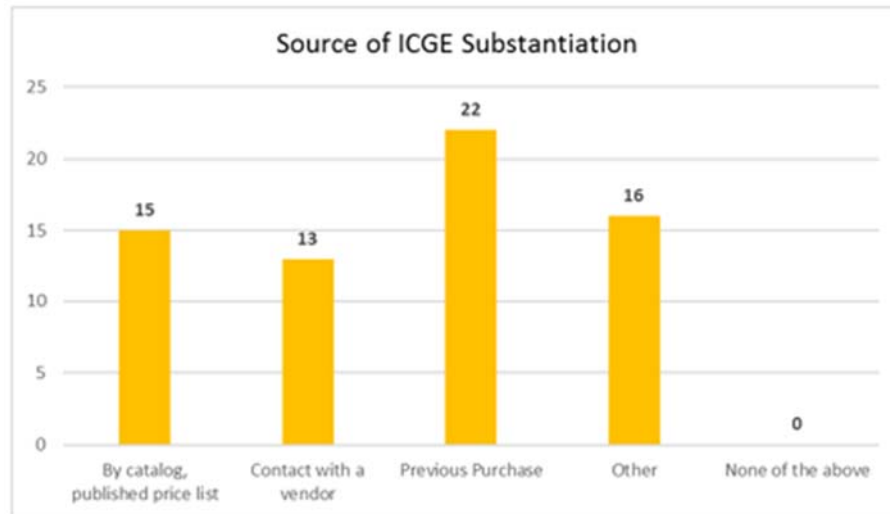


Figure 7. Source of IGCE Substantiation in the Contract Files

Notable Findings From Unsubstantiated IGCEs Reviewed

Lack of justification of labor hour estimates in the following:

- Only a statement that an engineer with experience estimated them.
- Several estimates of labor hour efforts based on historical contracts, but no historical data in the file as back up or even a contract number for reference.
- Task orders reviewed lacked evidence of estimates for labor hour effort. Since labor rates were already agreed to in the base ID/IQ contract, no perceived need to estimate labor mix and effort.
- Labor hour estimate based on a reference to non-identified historical work and a reduction of that historical effort based on a consolidation. No details about what is meant by consolidation. From reviewing the file, it appears that



tasks in the SOW has been reduced from previous efforts that should have been explained in the IGCE.

Lack of justification in estimating the labor rates as follows:

- Statements that historical rates were used without reference to any contract or data in file to back it up.
- Escalation rates were applied to future years with no reference to the source of the escalation rate.
- One escalation factor used was simply based on a quote in the DoD COTR handbook that stated “escalation between 2 and 3% is generally considered reasonable.”
- IGCE creator used rates from a schedule with similar job titles, not similar services.
- Unusual quantitative method used to determine an acceptable range of labor rates. Estimator took 4 quotes, averaged them, and then created a range by adding 20% to the average price, and subtracting 20% from the average price. No details why estimator used a +/- 20%. Made the range too large and not useful.
- Only provided an estimated total dollar amount without a break down of labor mix, hours, or rates.

Thirty-eight of the 66 files highlighted in Table 2 used IGCEs as the basis for the price reasonableness of current prices more frequently than any other technique, essentially 37% of the contract actions reviewed. However, we found that only 13 of the 38 IGCEs used for determining price reasonableness could be determined reliable for use as a comparison.



Table 2. Answers to the Question: “What was the Documented Justification for Price Reasonableness?”

Price Justification in Pricing Memos		Construction	Supplies	Services
Comparison to current offered price?	25	3	0	22
Comparison to previous prices paid?	14	0	0	14
Parametric estimating?	0	0	0	0
Competitive published price lists?	16	0	1	15
Comparison of proposed prices with independent government cost estimates?	38	2	0	36
Comparison of proposed prices obtained through market research?	7	0	0	7
Analysis of offeror data?	4	0	0	4
None of the Above	2	1	0	1

Examples of the incomplete comparison with IGCE or use of unreliable IGCEs found in the file reviews:

- Though a construction contract used RS Means to substantiate the IGCE, the winning price came in at \$265k versus the IGCE estimate of \$452K. The winning price only represents 58% of the IGCE. No documentation in the file justified why the IGCE was so high, despite plenty of offers alongside the winning price to justify the lower price.
- The source of data in the IGCE is the sole source vendor’s quote and referred to no history. Buyer used the unsubstantiated/unreliable IGCE for justifying price reasonableness.
- Documentation stated that price reasonableness was based on the comparison of the proposed price to an independent government estimate, but did not include any comments that would indicate the reliability of the IGCE in several pricing memos.



- Price justification relied on a weak IGCE. A quote from the previous offeror of the same services formed the basis of the IGCE. The IGCE was not substantiated; therefore, not reliable for comparison.
- Pricing memo mentioned that the IGCE was based on market research and historical data, but none of that was referenced in the IGCE.
- Though an IGCE was substantiated and could be used in justifying the reasonableness of the offered price, it had not been used. In the pricing memo, the IGCE is incorrectly stated as RS Means.
- A pricing memo discussed how the IGCE justifies the reasonableness of the offered price; however, it is incorrectly stated in the memo as pursuant to 15.404–1(c)(2)(iii)(D) and not to 15.404–1(c)(2)(v).
- Though the IGCE was substantiated and considered reliable to use, the offered price of \$217k was only 40% of the IGCE, which was \$553k, or essentially 60% lower. No other price analysis supported this lower price. Offeror negotiations took place. The buyer’s objective was based on lowering the offered price by 10%, though it was well under the IGCE. The contractor conceded 1%. Some other data for comparison should have been sought.
- The PNM contains a statement, “In addition, the offeror’s price was below the IGCE” as one of the justifications that the price is reasonable. No mention as to whether the IGCE was used for comparison or determined reliable or even why just being lower was a justification.
- A substantiated IGCE was used as the sole technique for price comparison. The buyer did not discuss why there was a 23% (significant) difference between the IGCE and the price and/or why other price analysis techniques had not been done to determine the reasonability of the price.

1d. Analysis of IGCEs

The use of an IGCE to determine price reasonableness is frequent, and the documentation of the reliability of IGCEs is not consistent. In contrast, only 24% of the IGCEs in the contract files identified as a price analysis technique in determining a fair and reasonable price could be validated as reliable; see Figure 8. Having more than 76% of a customer’s IGCEs used without documentation for reliability is discouraging because it creates doubt about the price reasonableness determination.



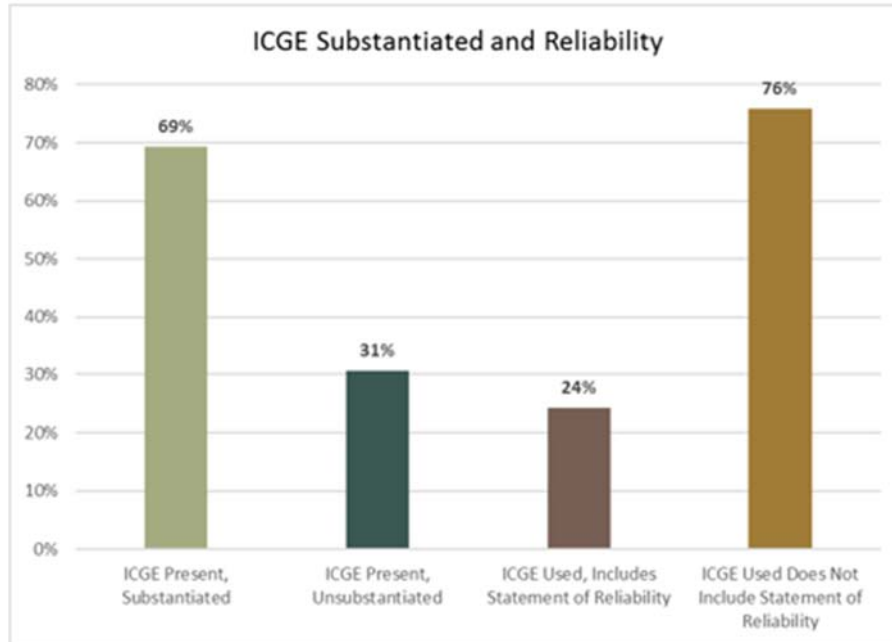


Figure 8. Contrast between IGCE Reliability and IGCE Substantiated

1e. If Pricing Memoranda Show Deviations, Do They Differ by the Same Characteristics and/or by Different Characteristics?

1e. Findings

In 45.5% of the files, deviations in pricing memoranda do exist as depicted as inadequate justification in Table 3. The files reviewed contained some consistent deviations and other unique ones.

Table 3. Contract File Data—Adequate vs. Inadequate Justification for Price Reasonableness

	Adequate Justification	Inadequate Justification	Total	Percent Justified
Contract Files	36	30	66	54.5%
Services	32	26	58	55.1%
Supplies	0	2	2	0%
Construction	4	2	6	66%

A majority of the pricing memoranda do deviate by two consistent characteristics: the lack of supporting documentation to justify the techniques used to establish price reasonableness based on previous prices and IGCEs. See findings that support the acceptance of prior prices without establishing their reasonableness and/or appropriate adjustments made for differences under the answers to 1a(iii) and findings behind the incomplete comparison with IGCE in the answers to 1d in the previous section.



The pricing memoranda in the sample reviewed established that the contracting officer determined price reasonableness as well as listed the technique used; however, substantiating documentation (e.g., calculation sheets, reference materials such as catalog data found online, copy of previous price documentation, and methodology) are not always included to support the source of their recommendations. A very small percentage of the IGCEs in the contract files used as a price comparison for price reasonableness included a statement of reliability or sought additional information from the IGCE creator to support the reasonableness of the offered price. Contracting personnel listed the IGCE as justifying the price of 38 contracts. Only 15 of the 38 were judged as reliable.

Some of the files reviewed contained unique deviations in the pricing memos. The following notes the assortment of unique problems uncovered in the pricing memos:

Notable Findings From Unjustified Pricing Memos Reviewed

1. Offeror sales data requested, received, but not reviewed.
2. Pricing memos that do not discuss the types of proposal analysis used in justifying price.
3. Despite an acceptable total evaluated price, unbalanced pricing involved the price of one or more contract line items being significantly over or understated, as indicated in the price analysis techniques applied.
4. The actual pricing memo left out details that had to be found under other tabs. The efforts made to justify price appeared adequate but were not recorded accurately in the PNM.
5. Buyer accepted a discount off a vendor's price as the justification for accepting the price. The discount of 12% off the commercial sales price was the same as the price given the vendor by the manufacturer. The vendor has no commercial sales, making it difficult to determine whether the government received the best price. Though the offeror has multiple sales within the government, it has no commercial sales to the public. No comparison made as to whether the commercial priced items are fair and reasonable. No comparison to other vendors providing pricing for similar items to see whether the discount is reasonable. Nothing to say manufacturer prices are reasonable, other than to say they are commercial items sold in substantial quantities.
6. Offered price was reasonable because it was in line with competitive offers from recent years, yet no specific data provided justification.
7. The buyer used the IGCE and competitive price lists for price justification. However, the IGCE was the vendor's quote, and the price list was simply a price list from the vendor. No adequate comparisons made. Also confusing is the use of MFR based on FAR 13.106-3(a) (2) statements for determining price reasonableness. Then in award summary, COR quotes FAR 15.404 IV and V (competitive price lists and IGCE) for determining price reasonableness. Should be either FAR 13 or 15, not both. Though in either case, COR still would not have justified the price adequately.
8. A buyer stated that an IGCE appeared in the PNM, but did not use it for the price comparison to the proposed price. The IGCE was substantiated and could have been used as an appropriate comparison. Unfortunately, the buyer used an invalid previous price for price analysis, instead of the IGCE. Had he done both, at least the IGCE would have supported the price reasonableness determination. Possibly buyers are not aware that more than



one price comparison is appropriate and sometimes necessary to justify price reasonableness. Three memos with similar issue.

9. Though an adequate price competition, the buyer only stated price was reasonable as it conformed with GSA schedule pricing, and included the application of discounts.
10. Very confusing: Buyer used a determination of an FMP as the basis for use in negotiating a final price, which was then considered fair and reasonable. The PNM did not specify the type of price analysis used for price comparison. A price analyst assisted the buyer and used competitive price lists of similar vendors to build the fair market price. Nothing was documented about how the labor effort or labor categories used in the FMP estimate were determined by the buyer or price analyst.

In the researcher's review of the IGCE, the IGCE estimator used a DISA contract to estimate the hours/categories. However, the buyer did not discuss that the IGCE was used in determining the FMP. Then, the FMP, which was built solely by the price analyst upon competitive price lists, was used to negotiate the final price.

The justification for price reasonableness was the negotiated price. The researcher believes the data available support the price, but it was not written up correctly, so the price was not justified. The statement in the PNM said only the following: "FMP based on a GSA schedule;" "Based on 15.405 a, price negotiations, the CO determined price fair and reasonable based on the negotiation that met the FMP."

Researcher concludes that CO believed that the negotiations of an FMP allowed the CO to justify price without conducting or documenting price analysis since other information that helped justify the price was missing from file.

Researcher notes some confusion on fair market pricing, especially for services. Not only does FMP need to determine the rates are fair and reasonable, but also evaluate the hours and labor mix, except for historical 8(a) as noted in the FAR citation that follows. Also as a type of analysis, fair market prices still need to be justified.

According to FAR 19.807, in estimating the fair market price, "The CO shall estimate the fair market price of the work to be performed by the 8(a) contractor. In estimating the fair market price, the CO shall use cost or price analysis and consider commercial prices for similar products and services, available in-house cost estimates, data (including certified cost or pricing data) submitted by the Small Business Administration (SBA) or the 8(a) contractor, and data obtained from any other Government agency. In estimating a fair market price for a repeat purchase, the contracting officer shall consider recent award prices for the same items or work if there is comparability in quantities, conditions, terms, and performance times. Comparison of commercial prices for similar items may also be used."



1f. What Are the Most Predominant Price Analysis Techniques Used in Purchasing Services?

Figures 9 and 10 depict responses to the question by percentages, then numbers for Contract File Data—Answers to the Question: “What Was the Documented Justification for Price Reasonableness for Services?” This offers insight into the predominant type of price analysis techniques exercised in purchasing services.

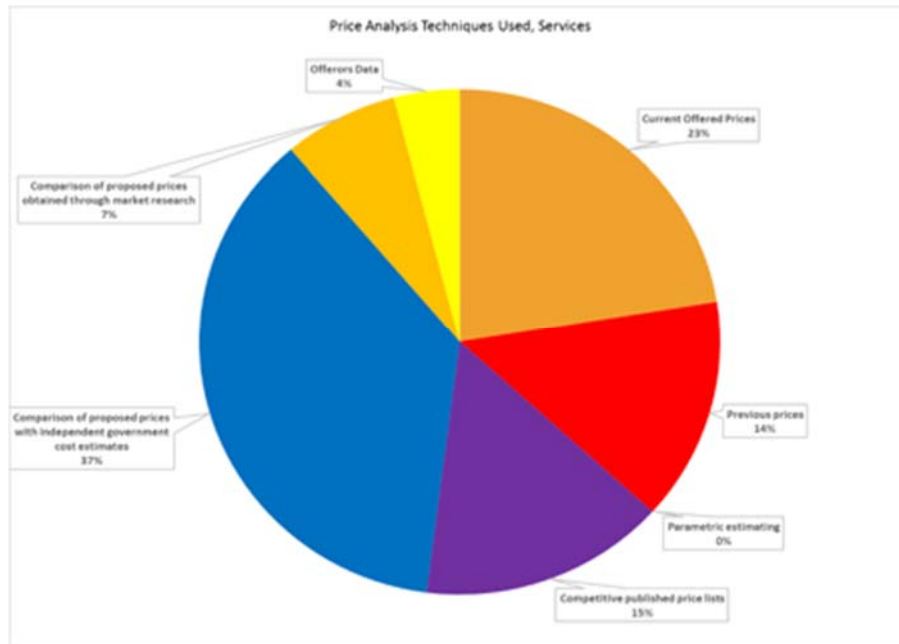


Figure 9. Contract File Data—Price Analysis Techniques Used, Services (Pie Chart)

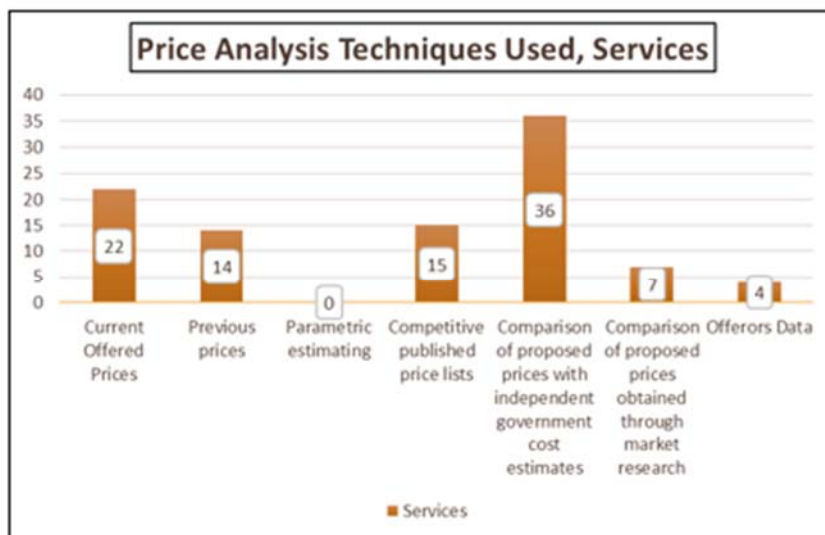


Figure 10. Services—Price Analysis Techniques Used



Findings

According to the contract file data sampled, the services reviewed compared previous prices and competitive price lists equally as price analysis techniques.

Services were very dependent on IGCEs. Thirty-six of 98 cumulative techniques used for services, or 37% of the time, service contracts tapped IGCEs as a primary price analysis technique. The next highest was current offered prices with 22 documented cases in the service files, or tapped 23% of the time.

Analysis

Out of the 58 service files we reviewed, 36 (62%) of the files used the IGCE for comparison. For services, there is more dependence on IGCEs to make price comparisons since IGCEs generally include an estimate of labor hours by the type of effort required. IGCEs are more effective for justifying the price of services than other price analysis techniques outside of two or more currently offered prices.

Summary

Overall, the use of price analysis techniques is common, but serious deficiencies hamper the correct use of those techniques and limit proper supporting documentation. Poor documentation to support the price reasonableness determination was the biggest weakness in the files examined. Competition was limited in establishing price reasonableness. The most frequently used techniques for determining price reasonableness within the files reviewed were comparisons to competitive price lists, comparison through market research, comparison to previous pricing, and comparison to IGCEs. The use of indexing and a statistically stratified sample appeared in a couple of files, but not regression and parametric analysis or other quantitative methods; however, contracting professionals interviewed know the techniques and have been trained to use them.

Consistent with DoDIG report findings, it appeared DLA contracting activities are concerned with high workloads and shortages of qualified personnel. The reviewers can appreciate how the workload and shortages may compound pricing inaccuracies and poor IGCEs. However, the number of unjustified pricing memos we reviewed is worrisome. Table 4 shows that over \$61 million in services were not adequately justified for price reasonableness.

Table 4. Summary of Unsubstantiated Pricing Memos by Service, Supply, and Commercial Value

	Percent of actions justified	Potential value not justified	Potential value justified	Percent of value not justified
Contract Files	54.5%	\$68,926,782	\$65,778,678	49%
Services	55.1%	\$61,765,782	\$59,135,156	51%
Supplies	0%	\$7,000,000	\$0	100%
Construction	66%	\$161,000	\$6,643,522	2%



Overall Recommendations

In a sole-source environment, determining commercial item prices for services to be fair and reasonable can be very challenging. However, contracting personnel should be able to obtain enough information to determine price reasonableness. If not through data available, then from each offeror. The limited technical evaluations reviewed under the auspices of cost analysis were not an evaluation, but more of acceptance. The following overall recommendations may be considered for implementation:

- A well-written checklist would be helpful to both contracting personnel and file reviewers. It would improve consistency by defining exactly what needs to be in the pricing documentation. A checklist should include a section on pricing. Reviewers saw other checklists provided to contracting personnel as a means to check off any FAR/DFARS/DLAD requirements, pre-award administration policies and procedures, but little on price analysis. The use of a checklist makes it easier for contracting personnel to at least identify the type of price analysis used in an award decision and pricing memo, instead of just writing it in.
- Consider examining what is preventing contracting personnel from performing price analysis properly, such as the following:
 - Determine whether current assessment methods consistently follow price reasonableness standards in accordance with the FAR/DFARS-PGI.
 - Train and retrain contracting personnel on price analysis techniques in determining price reasonableness along with what is proper support documentation for pricing.
 - Determine why offeror data is not requested more often. Only four files contained data requests from the offeror.
- Eliminate or reduce the challenges that contracting personnel have in executing proper price reasonableness as discussed in the interviews.
- Provide guidance to contracting personnel on how to assist and guide their personnel in preparing IGCEs and market research reports. This should be in line with any guidance provided to IGCE personnel, such as the IGCE Memo for distribution in the DLA entitled “Documenting the Independent Government Cost Estimate.”
- Confusion about the use of GSA Federal Supply Schedules and compliance with FAR 8.404. Contracting personnel did not seem to follow 13 March 2014 DPAP policy directing COs to make price reasonableness determinations using FAR 15 in lieu of FAR 8.404. See <http://www.acq.osd.mil/dpap/policy/policyvault/USA001004-14-DPAP.pdf>
- Author suggested solicitation language to request additional price data that will help contracting personnel make a fair and reasonable determination when competition is not expected.

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