

Objectives

This resource document covers the following:

- An overview of the proposal process, including applicable FAR (Federal Acquisition Regulations) and DFARS (Department of Defense FAR Supplement) definitions and requirements for submitting certified cost or pricing data
- The roles and responsibilities of the Procuring Contracting Officer (PCO) and Administrative Contracting Officer (ACO), the Offeror and the Lockheed Martin Authorized Procurement Representative (hereinafter referred to as the Lockheed Martin Buyer) concerning proposal adequacy
- The general requirements for an adequate proposal
- Assessing the adequacy of the data supporting estimates for the individual cost elements proposed
- Assessing the adequacy of the data supporting special items proposed, the adequacy of proposals when y

Outline

This reference document is made up of the following sections:

- Background Information
- Responsibilities for Adequacy
- General Adequacy Requirements
- Material and Subcontracts
- Direct Labor Costs
- Indirect Costs
- Other Direct Costs
- Royalties
- Proposal Adequacy Checklist
- Conclusion

What is a Proposal?

FAR 31.001 defines a proposal as any offer or other submission used as a basis for pricing a contract, contract modification, or termination settlement or for securing payments thereunder . This resource document focuses only on adequacy requirements for proposals that require Offerors to submit certified cost or pricing data.

Under certain conditions, certified cost or pricing data are not required. Those exceptions are specified later in this presentation.

PCO and ACO Role in Cost Analysis

FAR 15.404-1(a)(3) requires the Government to perform a cost analysis to evaluate the reasonableness of individual cost elements included in proposals that require submission of certified cost or pricing data. Cost analysis procedures generally include the following activities by either the Procuring Contracting Officer (PCO) or the Administrative Contracting Officer (ACO):

- Performing a technical appraisal of the estimated labor, material, tooling, and facilities requirements and of the reasonableness of scrap and spoilage factors
- Comparing proposed costs to:
 - Previous cost estimates from the offeror or from other offerors for the same or similar items
 - Other cost estimates received in response to the Government's request
 - Independent Government cost estimates by technical personnel
- Determining if the proposal is adequate to provide a sound basis for pricing decisions and contract award

Certified Cost or Pricing Data (cont'd)

Some of the most important aspects of certified cost or pricing data are:

- The data must be information that could reasonably be expected to significantly affect negotiations to qualify as cost or pricing data
- Certified cost or pricing data must be factual and verifiable
- Facts forming the basis for Offeror judgments qualify as certified cost or pricing data even though the judgments themselves do not

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Exception Criteria

FAR 15.403-1(b) prohibits the PCO from requiring Offerors to submit certified cost or pricing data:

- If the price is based on adequate competition
- If the price is set by law or regulation
- For the acquisition of a commercial item
- When the head of the contracting activity grants a waiver
- For modifications to contracts or subcontracts for commercial items

Offeror Responsibilities

The Offeror is solely responsible for preparing and submitting an adequate proposal and supporting its proposed costs. When the proposal is submitted, it should be complete and ready for audit.

FAR 15.403-4(b) further emphasizes this responsibility by requiring Offerors to certify that, as of the date of price agreement, the certified cost or pricing data submitted in support of its proposals are current, accurate and complete.

Lockheed Martin Buyer Responsibilities

The Lockheed Martin Buyer is the decision maker in the procurement process. For proposals requiring the Offeror to furnish certified cost or pricing data, the Lockheed Martin Buyer must determine:

- If the certified cost or pricing data the Offeror submits is acceptable as a basis for negotiating a fair and reasonable price
- Whether the proposal complies with the requirements of FAR 15.4; in particular FAR 15.408, Table 15-2
- If the Offeror will be able to perform the contract
- Which Offeror will be awarded the contract
- What clauses to include in the contract
- An acceptable contract price

General Adequacy Requirements

This section identifies the general FAR requirements for an adequate proposal. These requirements form the basis for initial assessment of proposal adequacy.

General Requirements

FAR 15.408, Table 15-2 requires the first page of the pricing proposal to contain the following:

- The solicitation, contract and/or modification number
- The name and address of the Offeror
- The name and telephone number of the Offeror's point of contact
- Name of the contract administration office (if available)
- The type of proposed contract action (new contract, change order, price revision/redetermination letter contract, unpriced order, or other)
- Proposed cost; profit or fee; and total
- If Government property will be required for use in performing the contract
- If the Offeror is subject to cost accounting standards

General Requirements (cont'd)

- If the Offeror has submitted a CASB Disclosure Statement and if it has been determined adequate
- If the Offeror has been notified they are, or may be, in noncompliance with their Disclosure Statement or cost accounting standards and, if yes, an explanation
- If any aspect of the proposal is inconsistent with the Offeror's disclosed practices or cost accounting standards and, if so, an explanation
- If the proposal is consistent with the Offeror's established estimating and accounting practices and procedures and FAR Part 31 Cost Principles and, if not, an explanation
- Date of submission
- Name, title and signature of authorized representative

General Requirements (cont'd)

Other Requirements

For the proposal to be adequate, the Offeror must also:

- Submit a copy of any agreement on use of forward pricing rates/factors reached with Government representatives and describe its nature. This is typically referred to as a Forward Pricing Rate Agreement (FPRA).
- Submit, and clearly identify as such, certified cost or pricing data. Identify on the proposal cover sheet that certified cost or pricing data are included in the proposal.
- Include an index, appropriately referenced, identifying all certified cost or pricing data and information accompanying or identified in the proposal. Future additions and or revisions must also be annotated. This is not the Table of Contents.
- Submit any information reasonably required to explain the offeror's estimating process, including:
 - The judgmental factors applied
 - The mathematical or other methods used in the estimate, including those used in projecting from known data
 - The nature and amount of any contingencies included in the proposed price.
- Identify costs incurred for work performed before proposal submission that are included in the proposal
- A completed F330, Proposal Adequacy Checklist (defined in detail later in this training module)

What Constitutes Submission?

There is a clear distinction between submitting certified cost or pricing data and merely making available books, records, and other documents without identification. The requirement for submission of certified cost or pricing data is met when all accurate certified cost or pricing data reasonably available to the Offeror have been submitted, either actually or by specific identification, to Lockheed Martin. As later data come into the Offeror's possession, it should be submitted promptly to Lockheed Martin in a manner that clearly shows how the data related to the Offeror's price proposal. The requirement for the submission of certified cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable. See FAR 15.408, Table 15-2, Note 1.

Data submitted by specific identification should be readily available and waiting for review. The subcontractor should not need to create this data or other information during field visits.

All certified cost or pricing data or other information submitted with or referenced or otherwise utilized in providing the proposal, must be identified on a separate index as required by FAR 15.408, Table 15-2, Section I.B.

Material and Subcontract Costs

In this section, the FAR submittal requirements related to material and subcontract costs are identified.

Direct Materials

FAR 15.408, Table 15-2 requires the Offeror to provide a consolidated priced summary of individual material quantities (typically referred to as a Consolidated Bill of Material, or CBOM) included in the contract being proposed. The proposal should also include Bills of Material (BOMs) at the line item level as well. The CBOM and line item BOMs should include raw materials, parts, components, assemblies, subcontracts and services to be produced or performed by others.

FAR 15.403-5 allows the Offeror to use its own format for this and other summaries.

Material items proposed must include:

- Source, quantity and cost
- The basis of estimate (BOE) which describes the basis for proposed material costs

Basis for Estimating Material Items

The basis for a material item estimate may be a supplier quote, purchase history with or without escalation, weighted average cost, etc. Different material items and/or categories may be costed by different methods.

The summary of material cost, included in the functional cost summary, provides traceability to the BOE.

The material BOE, containing task orders or CLINs, quantities, and part numbers, etc., in conjunction with the functional cost summary, provides a consolidated price summary and provides traceability to the Bill of Material (BOM).

Subcontracts

The requirements placed on prime Offerors also apply to subcontractors. When the Government requires the prime to submit certified cost or pricing data, its suppliers must also submit certified cost or pricing data to the prime contractor (or next-higher tier subcontractor), as appropriate. The exceptions to the certified cost or pricing data requirements for Offerors also apply to Offeror's sub-tier suppliers. Certified cost or pricing data submittal requirements for Offeror's sub-tier suppliers are described specifically in FAR Part 15.404-3(c)(1).

Noncompetitive Subcontracts

The requirements for noncompetitive subcontracts exceeding the certified cost or pricing data threshold are as follows:

- Include in proposal the basis for establishing the reasonableness of the price (Cost/Price Analysis)
- Support required is to be the same as for all higher tier Offerors where certified cost or pricing data is required.
- When purchasing commercial items (see FAR Part 2.101) the submittal of certified cost or pricing data is not required - but validation of the commerciality and price reasonableness using market research is required

Evaluation of Sub -Tier Prices

For all sub-tier proposals over the certified cost or pricing data threshold, where the subcontractor is required to submit certified cost or pricing data, the Offeror is responsible for:

- Conducting a price analysis and a cost analysis
- Including the results of sub-tier proposal reviews and evaluations as part of the Offeror's certified cost or pricing data submittal
- For Price and Cost analyses not available at time of proposal submittal, provide a matrix showing:
 - Planned date of proposal receipt
 - Planned date of factfind completion
 - Planned date for price and cost analyses completion and submittal to Lockheed Martin
- All outstanding Price and Cost Analyses must be submitted in time to support Government audit, typically within 60 days of initial proposal submittal to Lockheed Martin
- The amount in the Offeror's proposal should always reflect any negotiation reductions, decrements or other adjustments anticipated by the Offeror's sub-tier suppliers.

Inter-organizational Transfers

Inter-organizational transfers are defined as materials, supplies, or services sold or transferred between any divisions, subsidiaries, or affiliates of a Offeror under a common control.

- Competitive Interorganizational Transfers--the criteria described for competitive material or subcontract items also governs competitive Inter-organizational Transfers. For Inter-organizational Transfers priced at other than cost, FAR 15.408, Table 15-2 also requires an explanation of the pricing method.
- Non-competitive Inter-organizational Transfers--for non-competitive Inter-organizational Transfers priced at cost, the Offeror must provide a separate breakdown of cost by element, even if below the certified cost or pricing data threshold.

Inter-organizational Transfers (cont'd)

FAR 31.205-26(e) establishes allowability criteria for inter-organizational

Direct Labor Costs

In this section, the FAR submission requirements related to direct labor costs are identified.

Basis for Labor Estimates

FAR 15.408, Table 15-2 also requires the Offeror to provide the basis for estimates of labor costs.

Basis for Labor Estimates (cont'd)

Typically, Labor BOEs would contain, but not be limited to, the following information:

- Work Breakdown Structure
- Period of Performance showing start and stop dates
- Labor Categories being priced, to include task descriptions
- Time Phased hours
- Complete rationale
- Name of person who owns that BOE
- Identification of any historical data utilized in the estimate
- Cost estimating relationships forming all or part of the estimate
- If man-months are used, must identify hours per man-month.

The Offeror must also provide the basis for proposed labor rates and supporting data to include budgetary and trend data. The basis may be a Forward Pricing Rate Agreement (FPRA), Forward Pricing Rate Recommendation (FPRR), or a Forward Pricing Rate Proposal (FPRP) recently submitted to the Government for review.

Indirect Costs

For Indirect Costs included in proposals at any tier, the following apply:

- The proposal shall indicate how indirect costs have been computed and applied, including time-phased cost breakdowns
- For each year of the period of performance, the rates utilized must be supported by a discrete sales forecast and

Other Direct Costs (ODC)

Other Direct Costs (ODC) The term Other Direct Costs (ODC) is a loosely defined term that refers to anything charged directly to a contract not otherwise included as Direct Material or Direct Labor. Examples of items often classified as ODC include:

- Special tooling
- Special test equipment
- Outside consulting
- Outside processing not receiving Material overhead
- Travel (most common)

Basis for Pricing

Cost details alone are often insufficient. FAR 15.408, Table 15-2 requires the Offeror to provide the basis for estimate. This is often satisfied by a narrative description of the costs. For example, the Offeror should:

- Provide justification for the trips. Are they required by the contract? Are they necessary for coordination with subcontractors?
- Explain the basis for the proposed airfares, per diem, and car rental. Are the airfares based on current commercial rates adjusted for projected changes? Are the per diem rates based on established company rates or CONUS as published by the Government? What is the basis for the proposed rental car rates?

Similar details should be provided for any other proposed ODC. Special tooling, for example, should be provided.

Royalties

If royalties exceed \$1,500, the Offeror must provide the following information on a separate page for each separate royalty or license fee:

1. Name and address of licensor.
2. Date of license agreement.
3. Patent numbers.
4. Patent application serial numbers, or other basis on which royalty is payable.
5. Brief description (including any part or model numbers of each contract item or component on which royalty is payable).
6. Percentage or dollar rate of royalty per unit.
7. Unit price of contract item.
8. Number of units.
9. Total dollar amount of royalties.
10. If specifically requested by the Lockheed Martin Buyer, a copy of the current license agreement and identification of applicable claims of specific patents (see FAR 27.202 and 31.205-37)

DFARS Requirement for a Proposal Adequacy Checklist at the Prime Contractor Level

On 3/28/2013 a final rule was issued to add DFARS 215.408(6) which prescribed that when certified cost or pricing data was required, the clause at 252.215-7009 must be included in the contract requiring the submittal of a Proposal Adequacy Checklist when contracting with the Government. It also recommends flowing this requirement down to the Prime Contractor's supply chain, which Lockheed Martin has chosen to do.

The Proposal Adequacy Checklist – Basic Rules and

The Proposal Adequacy Checklist – Basic Rules and Utilization (cont'd)

The following are the steps to complete the proposal checklist:

- In the area directly below the proposal checklist title the Offeror must provide the following information:
 - Offeror Name
 - Proposal Number
 - Date checklist is completed
 - Applicable Program Name (F-35, F-16, etc.)
 - Effort (LRIP 8 Production, Delivery Order XX, etc.)
 - Name of Offeror's point of contact for the checklist contents
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Common Omissions and Findings

- Proposals not containing an index of certified cost or pricing data or other information included or referenced in the proposal, submitted actually or by specific identification, utilized in preparing the proposal. This index should identify each

Common Omissions and Findings (cont'd)

- Pricing templates are either missing or do not add to the total proposed value
- Pricing summaries required by Section III of

How is the proposal checklist utilized by Lockheed Martin?

Lockheed Martin must verify that the Offeror's proposal is indeed compliant. Lockheed Martin cannot proceed with requesting any necessary audit(s), submit the proposal to the Government or proceed with negotiations until the proposal is compliant.

In making this determination, the Lockheed Martin evaluation and negotiation team thoroughly reviews the proposal and utilizes the two columns on the left side of the proposal checklist to designate whether or not the item being reviewed is deemed to be "C" compliant or "NC" not compliant. It is essential that the location of the data and other information be provided in the appropriate column to facilitate a quick turnaround should there be issues that need further investigation and subsequent rework on the part of the Offeror.

When issues with inadequacy arise, the Lockheed Martin Buyer will address them with the Offeror quickly and bring them to resolution in the shortest possible time so as not to impact the prime estimate commitments or the definitization schedule with the Offeror.

Conclusion

Lockheed Martin expects its Global Supply Chain to provide compliant proposals at the time of initial submittal to Lockheed Martin. Rework of Offeror proposals should be the exception and not the rule.

Offeror's responsibilities for its sub-tier suppliers are the same as described here for their proposal to Lockheed Martin. Offerors are responsible for obtaining certified cost or pricing data, performing Price Analyses on all procurements, performing Cost Analyses when the sub-tier supplier's proposals exceed the certified cost or pricing data threshold, performing commercial item determinations, etc.