



Cost Realism Checklist Template

A Mandatory Reference for ADS Chapter 300

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USAID
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COST REALISM ANALYSIS KEY
COMPONENTS GUIDANCE AND
CHECKLIST

BUREAU FOR MANAGEMENT (M)
OFFICE OF ACQUISITION AND ASSISTANCE
TEMPLATES SERIES

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Introduction

An important part of your job as a primary member of the AO/CO Acquisition & Assistance Support Team in negotiating an award should be the price that the Government will pay to obtain the required supplies or services from a responsible contractor. Your objective should be to negotiate an award type and price (or estimated fee and cost) that will result in reasonable partner risk and provide the partner with the greatest incentive for efficient and economical award performance. Your cost realism analysis will also indicate if the offered price reflects a clear understanding for the work to be performed; reflect a clear understanding of contract requirements; and is consistent with the performance methodology and inputs described in the technical proposal. The purpose of this topic is to **provide guidance, and** identify key tenets of realism in analyzing costs, and aid your ability to document the result of the analysis through the use of the attached checklist. The component stated here applies to contemplated contracts and assistance awards.

In addition to this guidance you should review the following guidance: *Cost Analysis Key Components Guidance and Checklist, Technical Evaluation Committee Process Instruction Guide and Template, Technical Evaluation Committee Chairperson Guide and Template.*

Audience

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|--|--|
| <input checked="" type="checkbox"/> Agreement Officer | <input checked="" type="checkbox"/> Agreement Officer's Representative |
| <input checked="" type="checkbox"/> Contracting Officer | <input checked="" type="checkbox"/> Contracting Officer's Representative |
| <input checked="" type="checkbox"/> Contract Specialist | <input checked="" type="checkbox"/> Program Analyst/Activity Manager |
| <input checked="" type="checkbox"/> Agreement Specialist | <input type="checkbox"/> Budget Officer |
| <input checked="" type="checkbox"/> Technical Evaluation Committee | |

Acronyms

A&A	Acquisition & Assistance
AO/CO	Agreement/Contracting Officer
CER	Cost Estimating Relationship
CPI	Consumer Price Index
DBA	Defense Base Act
FAR	Federal Acquisition Regulations
GAAT	Government's Acquisition & Assistance Team
ICE	Independent Cost Estimate
IGCE	Independent Government Cost Estimate
M/OAA/CAS	Contract Audit and Support Division
NICRA	Negotiated Indirect Cost Rate Agreement

ODC	Other Direct Costs
SCA	Service Contract Act
SSEB	Source Selection Evaluation Board

Definitions

Allocable Cost: incurred solely to advance the work under the contract or agreement.

Allowable Cost: actual or proposed expenditures that are reasonable, incurred solely to advance the work under the contract or agreement, given consistent treatment by the organization, and are within the limitations of the contract terms and statutory or regulatory requirements.

Buy-in: submitting a price proposal below anticipated costs, expecting to increase the award amount after award (e.g., through unnecessary or excessively priced modifications; or receive follow-on awards at artificially high prices to recover losses incurred on the buy-in award.

Cost: is a component of price. Cost is a monetary measure of the expenditure for capital and labor required to complete contract performance

Cost Analysis: is the review and evaluation of the separate elements of cost including profit and/or fee in the Applicant/Offeror's proposal to determine if the projected price is fair and reasonable based on the Applicant/Offeror's assumptions, and whether or not the proposed cost represent what the cost of the award should be assuming reasonable economy and efficiency.

Cost Estimating Relationships (CERs): CERs is a methodology that organizations use to develop cost estimates. CERs range from general rules of thumb, developed from practical experience to complex formulae developed from detailed statistical analysis of past programs. An example of this type of estimating is what a construction contractor might devise relating floor space (\$22- \$25 per square foot) to building cost (* 2200 square feet = \$49,400). Applicants may describe the use of a CER for certain elements of cost in their proposal or for the overall price of certain components. In all cases, it is the responsibility of the Applicant/Offeror to describe any CERs used and the basis. You will then need to determine if the CER represents a fair and reasonable estimating methodology for the given cost element.

Cost Realism Analysis: Cost realism is the process of independently reviewing and evaluating specific elements of each Applicant/Offeror's proposed cost estimate to determine whether the cost estimate is realistic for the work to be performed; reflects a clear understanding of the requirements; and is consistent with the unique methods of performance and materials described in the Applicant/Offeror's technical proposal. Cost Realism Analysis is conducted by evaluating the supportive data that form the bases of the individual elements of cost to determine the probable cost of the performance. The probable cost shall be used for purposes of evaluation to determine the best value. The probable cost is determined by adjusting each offeror's proposed cost, and fee when appropriate, to reflect any additions or reductions in cost elements to realistic

levels based on the results of the cost realism analysis. See guidance and checklist for conducting Cost Analysis Key Concepts and Checklist.

Government's Acquisition & Assistance Team: Functional and technical discipline experts (may be external to the Office of Acquisition and Assistance) e.g., auditor, engineers, legal, transportation, programmatic, etc., who support the AO/CO in field pricing or source selection evaluation.

Government Cost Estimate: is the government's estimate of the resources and projected cost of the resources a contractor or a recipient will incur in the performance of an Acquisition & Assistance (A&A) award. These costs typically include direct costs: such as labor, supplies, equipment, or transportation; and indirect costs such as labor overhead, material overhead, general and administrative (G&A) expenses, and for contract only profit or fee.

Independent Cost Estimate: Conducted by a staff member or unit outside the acquisition chain, using the same detailed technical information as the cost estimate, it is a comparison with the cost estimate to determine whether it is accurate and realistic. ICEs are typically performed by unit member(s) higher in the decision-making process than the office performing the estimate. They provide an independent view of expected program costs that tests the office's estimate for reasonableness. The ICE is usually developed from the same technical baseline description the program office used so that the estimates are comparable. An ICE's major benefit is that it provides an objective and unbiased assessment of whether the program estimate can be achieved, reducing the risk that the program will proceed underfunded.

Local Compensation Plan: is each country's official system of establishing salary/compensation for Foreign Service National's (FSN), consisting of the local salary schedule, which includes salary rates, statements and authorizing benefits payments, premium pay rates, and other pertinent aspects of the FSN employee compensation (AIDAR 722.170).

Negotiation Memorandum: the AO's/CO's documentation of the principle elements of the considerations leading to an award decision.

Other than Cost and Pricing Data (FAR Based): is data that constitutes pricing information that is not required to be certified

Price: the amount of money that a buyer pays a seller for the delivery of a product or the performance of a service.

Price Analysis: is the process of deciding if the asking price for a product, service or program is fair and reasonable, without examining the specific cost elements and profit the vendor used in arriving at the price.

Probable Cost Estimate: is the Government's estimate of what it will cost for the offeror to complete the contract based on the Government's evaluation of the offeror's technical proposal and proposed costs. This estimate is complimentary with and must be performed in conjunction

with all cost realism analyses and is a principal product of the Activity Manager in the source selection evaluation process.

Source Selection Evaluation Committee: personnel, representing functional and technical disciplines, that is charged with evaluating proposals and developing summary facts and findings during source selection. They are appointed by and under the control of the award approving authority (in USAID, usually the AO/CO).

Key Roles and Responsibilities

AO/CO is responsible for making a determination of fairness and reasonableness of price and documenting the basis of the determination in writing. The AO/CO may request the assistance of experts from the GAAT, as required, in making the determination.

Activity/Program Manager in the topic context is responsible for developing the USAID's cost estimate and providing support as needed to the AO/CO to determine fairness and reasonableness of price. They are also a source of expertise for source selection evaluation including cost realism and probable cost analyses.

Agreement/Contract Specialist is a primary member of the GAAT providing A&A support to the AO/CO in fulfilling the A&A mission of the A&A unit. In the context of this topic, the specialist will assemble, analyze, and correlate data to perform analyses required by regulation or best practices, and to make recommendations for the AO/CO to make fair and reasonable determinations.

Guidance

Key Cost Realism Analysis Concepts

Why should you conduct a cost realism analysis? Applicant/Offeror may submit *unrealistically low offers to buy-in to the procurement*. Unrealistically low offer/applications can generally occur, because the Applicant/Offeror:

- **May Not Understand the Governments Requirements.** Government requirements may be ambiguous or the Applicant/Offeror may be unfamiliar with terminology.
- **Did not Align Cost Proposal Preparation with the Technical Work.** The inconsistency may occur as the result of inadequate coordination between the Applicant/Offeror's team preparing the technical proposal and the team preparing the cost proposal.
- **Intentionally Understated the Proposed Cost/Price.** In the face of competitive pressure, an Applicant/Offeror may submit an unrealistically low price in order to win an award (i.e., use a buy-in pricing strategy).

If the Applicant/Offeror underestimates the magnitude or complexity of a proposed task, the estimated costs could be far below the realistic cost of successful contract or program

performance. Based on the evaluation criteria stated in the solicitation, you can use the results of your analysis in selecting the offer that provides best value to the Government.

Cost realism is about the system of logic, the assumptions about the future, and the reasonableness of the historical basis of the estimate. It's about the estimating information (cost data) that makes up the foundation of the estimate. Past performance information can be an excellent way to gain awareness into the accuracy of the Applicant/Offeror's cost estimates by providing insight on past problems or precedents with controlling cost for similar projects. As with any other historical information, use historical information with care and always consider differences between the past and the current situations. Learning about the Applicant/Offeror's pricing practices, any precedents established in past negotiations (if possible) and assessing the quality of pricing information provided is key in determining whether the cost estimate is realistic for the work or program to be performed. When evaluating a proposal that will result in the award of a cost-reimbursement contract cost realism analyses shall be performed to determine the probable cost of performance for each offeror. Cost realism must be conducted when the basis of award is "best value".

Examples of the questions that cost realism analysis seeks to answer are:

- Are the Applicant/Offeror's assumptions used in the estimating process reasonable?
- Has the historical data used to develop the estimates taken into consideration environmental parameters such as inflation?
- Is the cost estimating logical? Does it make sense in the context of the hardware and/or software product or service being estimated?
- Does the elements in or the overall estimate appear to be too low or too high? If so, how is this bias presented in the estimate?
- If the program is competitive, are the Applicant/Offeror's or Government's program expectations too optimistic?

The following is an overview of the process that should be used when performing a cost realism analysis:

- Assure the solicitation document states how the Cost Realism Analysis will be used in the award decision.
- Obtain information, other than cost or pricing data, needed to support the Cost Realism Analysis.
- Obtain other information necessary to support the analysis.
- Obtain analysis support from other members of the Government Team.
- Identify any costs/prices that are under/overstated for the required effort.
- Estimate the realistic Cost of performance.
- Apply Cost Realism Analysis in the evaluation and selection process.

Things to remember:

- The involvement of Source Selection Evaluation members is necessary to analyze whether the proposed costs “are realistic for the work to be performed” and “reflect a clear understanding of the requirement”. SSEB involvement is indicated in the checklist.
- A cost estimate cannot precisely predict what product or services will actually cost.
- Solicitations usually request Applicant/Offerors to propose innovative solutions which can conflict with the Independent Government Cost Estimate (IGCE) if the IGCE was developed based on the amount of funds the activity has been allocated rather than anticipating a new and improved way of delivering products, services or programs.
- Never use the IGCE as the sole basis for cost realism analysis.
- Look for ways the Applicant/Offeror connects cost with the technical solution, for example by a task breakdown structure, contract line item number, or some other organized method. This is the quickest way to establish whether something has been omitted.

Clear documentation of your analysis is essential because it demonstrates to others the basis of the analysis. Clear documentation can also guide efforts to resolve disagreements with an Applicant/Offeror over the results of your analysis, before the disagreement becomes an impediment to negotiations. Under Acquisition, in the event of a protest, clear documentation will significantly improve your chances of success in sustaining an award decision. The attached checklist is provided to assist you with conducting a cost realism analysis. Using the comment sections will facilitate your ability to document the analysis.

COST REALISM ANALYSIS CHECKLIST

This checklist is provided as a tool intended to guide and assist applicable USAID GAAT members in conducting their cost realism analysis of submitted proposals/applications. Filling in the comments section of this checklist will make it easier to quickly document your cost analysis when you capture and summarize the procurement process in your negotiation memorandum (include dates and important facts in the comments section to help facilitate writing the negotiation memorandum).

The Cost Realism Analysis Checklist that follows must be used for each prime Applicant/Offerors and its major subcontractors. The cost realism analysis for each major subcontractors must be completed and documented on a separate Cost Realism Analysis Checklist. Some of the data items shown below were also identified in the cost analysis guidance and checklist as items that should be reviewed by the SSEB during this cost realism analysis. These data items are identified with the annotation "SSEB Assessment".

Cost analysis is reviewing the applications and proposals to determine if the projected price is a fair and reasonable price. This cost realism analysis is conducted to determine if the projected costs supporting that price are realistic for the work that is to be performed.

COST REALISM ANALYSIS CHECK LIST		
Data Item	Yes /NA	Comments
DIRECT LABOR		
1. Is the proposed mix/type of labor effort appropriate for the work to be performed? SSEB	Choose an item.	Click here to enter text.
2. Is the proposed number of hours/percentages/daily rates of effort reasonable for work to be performed? SSEB	Choose an item.	Click here to enter text.
3. Is the budgeted LOE consistent with LOE needed to perform the work given recovery of paid absences? SSEB	Choose an item.	Click here to enter text.
4. If personnel are named in the proposal, are Labor Rates for the personnel realistic based on biographical data sheets?	Choose an item.	Click here to enter text.
5. Are Labor Rates for unfilled positions realistic (current actual rates/blended or composite rates/commercially avail. salary surveys/local compensation plans/etc.)?	Choose an item.	Click here to enter text.
6. Is Labor Escalation Factor consistent with company policy for providing salary increases?	Choose an item.	Click here to enter text.
7. If Escalation Factor is partially based on inflation, is rate realistic according to CPI index? http://www.bls.gov/data/inflation_calculator.htm	Choose an item.	Click here to enter text.
8. Has Offeror established a realistic rationale for proposed Escalation Factor? How does it compare with actual average salary escalation for most recent accounting period?	Choose an item.	Click here to enter text.
9. If applicable, are Labor Rates for personnel covered by the SCA compliant with Wage Determination? Local Compensation Plans?	Choose an item.	Click here to enter text.
10. If applicable, is the Overtime Rate for exempt & non-exempt personnel calculated correctly? [See Fair Labor Standards Act of 1938, as amended: 29 U.S.C. 206 and 207] www.dol.gov/compliance/laws/comp-flsa.htm	Choose an item.	Click here to enter text.
11. If applicable, is the estimated usage of paid Overtime consistent with technical approach? SSEB	Choose an item.	Click here to enter text.
12. Can significant differences between proposed cost and IGCE be accounted for (i.e. Due to Offeror's unique technical proposal, under/over stated IGCE, etc.)?	Choose an item.	Click here to enter text.
13. Is the response to Special RFP Provisions (e.g. Labor ceiling rates if requested in the solicitation) appropriately detailed and reasonable?	Choose an item.	Click here to enter text.
14. If applicable, are the proposed Consultants' services essential to the project? SSEB	Choose an item.	Click here to enter text.
15. If applicable, are the proposed Consultant labor	Choose	Click here to enter text.

COST REALISM ANALYSIS CHECK LIST		
Data Item	Yes /NA	Comments
hours/effort reasonable compared to the work to be performed? SSEB	an item.	
FRINGE BENEFITS		
16. Are paid absences enumerated by type, supported by written policy, and captured in budget?	Choose an item.	Click here to enter text.
17. Is the NICRA fringe rate accurately applied to different types of labor?	Choose an item.	Click here to enter text.
18. Is direct fringe applied in accordance with company policy and labor laws, i.e. "13 month pay"?	Choose an item.	Click here to enter text.
19. If applicable, does the fringe rate comply with the requirements of the applicable SCA Wage Determination? [Service Contract Act, FAR 52-222.41 (c) and (d)]	Choose an item.	Click here to enter text.
20. If required by Evaluation of Compensation for Professional Employees, FAR 52.222-46, does the compensation plan for professional employees indicate realistic levels of salary and fringe benefits which are captured in the budget? .	Choose an item.	Click here to enter text.
21. Are significant differences between the proposed cost and IGCE accounted for? (i.e., Due to Offeror's unique technical proposal, under/over stated IGCE, etc.)	Choose an item.	Click here to enter text.
21. If applicable, is the response to special solicitation cost provisions (i.e. Ceiling rates) appropriately detailed and reasonable?	Choose an item.	Click here to enter text.
23. Other: If applicable, does the application of fringe for Part Time personnel reflect NICRA and do direct benefits reflect company policy?	Choose an item.	Click here to enter text.
24. If an Applicant/Offeror's rate/rates are questioned and/or the Applicant/Offeror has an unaudited accounting system, was the results of CAS Review applied?	Choose an item.	Click here to enter text.
OVERHEAD and G&A COSTS		
25. Has a NICRA been executed with the Applicant/Offeror? (see AIDAR 742.770)	Choose an item.	Click here to enter text.
26. Where NICRA exists, are the rates consistent with the proposed rates?	Choose an item.	Click here to enter text.
27. Are variances between NICRA rates and proposed rates explained? [Note: If variance is not due to proposed ceilings being beneath current rates (see CIB 92-17), variance has been approved by M/OAA/CAS.]	Choose an item.	Click here to enter text.
28. Is the Overhead and G&A base clearly indicated in the budget and is it consistent with the NICRA?	Choose an item.	Click here to enter text.
29. If ceiling rates are in excess of the NICRA, are the variances between the current NICRA rates and the proposed ceiling rates explained?	Choose an item.	Click here to enter text.

COST REALISM ANALYSIS CHECK LIST		
Data Item	Yes /NA	Comments
30. If a NICRA <u>has not</u> been executed with the Applicant/Offeror, has M/OAA/CAS been asked to provide assistance in reviewing the rates?	Choose an item.	Click here to enter text.
31. Has any significant difference between the proposed cost and the IGCE been explained (i.e. Due to Offeror's unique technical proposal, under/over IGCE, etc.)?	Choose an item.	Click here to enter text.
32. Are the responses to any special solicitation provisions (e.g. Ceiling Overhead rates if requested in the solicitation) appropriately detailed and reasonable?	Choose an item.	Click here to enter text.
33. If an Applicant/Offeror's rate/rates are questioned and/or the Applicant/Offeror has an unaudited accounting system, was the results of CAS Review consulted?	Choose an item.	Click here to enter text.
OTHER DIRECT COSTS (ODCs)		
34. Has the Applicant/Offeror's Purchase System been approved by the government?	Choose an item.	Click here to enter text.
35. If answer above is "no", have Applicant/Offeror's purchasing methods been explained in detail?	Choose an item.	Click here to enter text.
Materials/Supplies/Equipment	Choose an item.	Click here to enter text.
36. Has "Lease vs. Buy" or "Buy vs. Make" been explained, per Make or Buy Programs, FAR 15.407-2?"	Choose an item.	Click here to enter text.
37. Are the proposed type, quality, and number of units of each type of materials and/or supplies appropriate to implementing the technical approach? SSEB	Choose an item.	Click here to enter text.
38. Is the proposed equipment necessary for the work to be performed? SSEB	Choose an item.	Click here to enter text.
39. Do the proposed ODCs meet the technical requirements and appear realistic to implementing the technical proposal? SSEB	Choose an item.	Click here to enter text.
40. Are any ODC costs duplicated in Overhead?	Choose an item.	Click here to enter text.
Travel	Choose an item.	Click here to enter text.
41. If travel is proposed, is the proposed Number of Trips appropriate and reasonable for the work to be performed? SSEB	Choose an item.	Click here to enter text.
42. If travel is proposed, is the proposed Duration of Trips appropriate and reasonable for the work to be performed? SSEB	Choose an item.	Click here to enter text.
43. If travel is proposed, are the proposed Destinations of Trips appropriate and reasonable for the work to be performed? SSEB	Choose an item.	Click here to enter text.
44. If travel is proposed, are the proposed Number and	Choose	Click here to enter text.

COST REALISM ANALYSIS CHECK LIST		
Data Item	Yes /NA	Comments
Types of People Traveling appropriate and reasonable for the work to be performed? SSEB	an item.	
Consultants	Choose an item.	Click here to enter text.
45. If Consultants are proposed, is the proposed consultant travel reasonable (i.e. number of trips, duration, destination, types of people)? SSEB	Choose an item.	Click here to enter text.
Computer Services	Choose an item.	Click here to enter text.
46. If computer services are required for the work to be performed, are the proposed computer/related services reasonable from a quantitative standpoint (e.g. CPU hrs, I/O lines, number of runs)?	Choose an item.	Click here to enter text.
47. If computer services are required for the work to be performed, is the proposed type of computer equipment appropriate for the work to be performed?	Choose an item.	Click here to enter text.
Security/DBA/Branding/Environmental	Choose an item.	Click here to enter text.
48. Are proposed Security Costs appropriate and realistic for the work for the intended country?	Choose an item.	Click here to enter text.
49. Are proposed insurance rates in alignment with current policy-rates?	Choose an item.	Click here to enter text.
50. Are proposed DBA insurance rates appropriate for the proposed staffing level?	Choose an item.	Click here to enter text.
51. Are proposed costs of the Applicant/Offeror's Branding Implementation Plan and Applicant/Offeror's Marking Plan realistic for commodities, equipment, program, project, communications, reports, publications, events, etc.?	Choose an item.	Click here to enter text.
52. If Environmental Compliance activities are a requirement, are the proposed compliance costs in alignment with the technical proposal? SSEB	Choose an item.	Click here to enter text.
IGCE/Special Provisions	Choose an item.	Click here to enter text.
53. Has any significant difference between the proposed cost and the IGCE been explained (i.e. Due to Applicant/Offeror's unique technical proposal, under/over IGCE, etc.)?	Choose an item.	Click here to enter text.
54. Are the responses to any special solicitation provisions (e.g. Ceiling Other Direct Cost rates if requested in the solicitation) appropriately detailed and reasonable?	Choose an item.	Click here to enter text.