



Selection of Data Source for Systems Contractor Labor Rates and Overheads and Their Application

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Outline

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- Historical Contracts
- What are Forward Pricing Rates?
- OSD (ATL) Guidance
- Process for Developing FP Rates
- Case Study
- Summary



Historical Contracts

- One method of estimating contractor labor rates involves obtaining data from previous (historical) contracts
- Data can then be inflated to the appropriate fiscal year
- Frequently, cost estimates use an average labor rate as a gross cost estimating tool (e.g. - \$ 200 K / year)
- Some contracting offices have developed an average contractor labor rate by taking the mean of the labor rates from all their contracts



What are Forward Pricing Rates?

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- A forward pricing rate is an agreed to price (rate) between a contractor and the Defense Contract Management Agency (DCMA) for labor and overheads
- There are three types of forward pricing rate documents:
 - Forward Pricing Rate Proposal
 - **Forward Pricing Rate Recommendation**
 - Forward Pricing Rate Agreement



Dr. Carter Guidance on FPRR

Increase use of FPRRs to reduce admin costs

- Establishing FPRAs just for the sake of having them is not beneficial
- Strive to have FPRAs when possible, but not when FPRR's are available **unless** there's a legitimate and thoughtful basis for departing from them
- *where DCAA has completed an audit of a contractor's rates, DCMA shall adopt the DCAA recommended rates as the Department's position*

From memo of 14 Sep 2010



Process for Developing Forward Pricing Rates



References:
FAR Subpart 42.17
Dr. Carter Memo of 14 Sep 10

Contractor projects into the future the expected cost of labor rates and burdens → Contractor must notify DCMA & DCMA of any significant change in cost or pricing data

Contractor prepares FPR Proposal (FPRP) and submits to DCMA

DCMA Reviews FPRP and prepares FPR Recommendation (FPRR) and sends to:

Buying activities use FPRRs to assist in their negotiations

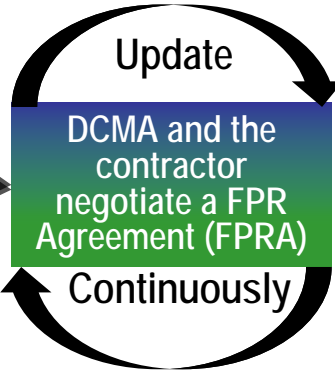
Contractor invoices contracts based upon FPRR

DCAA audits the FPRR and prepares an Audit Report

FPRA Establishment Process

DCAA Complete Audit Report in a timely manner?

32% Yes



68% NO



Color Key

Actions taken by Contractor	Actions taken by Government
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Case Study



Data Source Comparison

	Acme Contract	2011 FPRR
# of Unique Position Descriptions	50 many with 3 levels	5 categories of positions each with many levels, such as: -Managerial -Engineering -Technical -Administrative -Clerical
Rate Distinction for Business Divisions	No 1 schedule for entire company	Yes , 3 separate divisions •Civil •Defense •Intelligence
Rate Distinction for Geographic Regions	No 1 schedule for entire US	Yes , several geographical regions to reflect different cost of living
Year Labor Rates Were Set	2009, for a 3 year period	Rates are only good for one year
Year Labor Rates Will Be Updated	2012	Each year

The Labor Rates in the FPRR are more specific to market segment and geographical location, and are updated annually, making them more current than the Acme Contract.





Position Description Mapping to FPRR



based on education & experience

Position Descriptions from CARD

T&E Support Senior Lvl

Consulting Support

Enterprise Architecture Support

Engineer Journeyman

Data Cleansing Support

Education & Experience Requirements for Level in FPRR

BA + 10 yrs or MA + 8 yrs or PhD + 6 yrs	Level 5
BA + 6 yrs or MA + 4 yrs or PhD + 2 yrs	Level 4
BA + 4 yrs or MA + 2 yrs or PhD + 0 yrs	Level 3
BA + 2 yrs or MA + 0 yrs	Level 2
BA + 0 yrs	Level 1



Calculating Labor Burden



Direct Labor (DL) hourly rate		\$	75.00		Burden Rate	147.21%
	<u>Rates</u>		<u>Dollars</u>			
Employee Fringe Benefits (FR)	35%	\$	26.25			
Facility (FAC)	15%	\$	11.25	assumes Company Headquarters		
Overhead (OH)	30%	\$	30.38	= OHRate * (DL+FR)		
G&A	10%	\$	14.29	= GARate * (DL+FR+FAC+OH)		
G&A Cost of Money	5%	\$	7.14	= GACOMRate * (DL+FR+FAC+OH)		
Computer Systems (IT)		\$	2.00			
Profit / Fee	12%	\$	19.10	= PFRate * (DL+FR+FAC+OH+GA+IT)		
Subtotal Burdens		\$	110.41			
Total Burdened Cost		\$	185.41			
Other Direct Cost (ODC) Computer Systems						
Workstation - Laptop		\$	1.00			
Network Infrastructure		\$	0.50			
E-mail		\$	0.25			
Telecom		\$	0.25			
Total		\$	2.00			



Summary

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- Use of FPRRs can greatly reduce the uncertainty in Contractor Labor Rates
- With the use of FPRRs, driver of cost risk more likely to be estimating the # FTEs required to complete tasks
- Use of FPRR in POEs will eliminate the need for further scrutiny of labor rates