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FCMR-ABB-CE

28 June 2022

MEMORANDUM FOR U.S. Army Medical Research and Development Command
Employees

SUBJECT: Procurement Advisory Notice 22-02 Preparation and Use of the
Independent Government Estimate

1. REFERENCES AND RESOURCES.

- a. Federal Acquisition Regulation (FAR) Subpart 4.803 Contents of contract files.
- b. Army Federal Acquisition Regulation Supplement (AFARS) Subpart 5107.90
Independent Government Estimates
- c. Department of Defense Contracting Officer's Representatives Guidebook, dated
May 2021
- d. Department of Defense Independent Government Cost Estimate (IGCE)
Handbook for Services Acquisition, dated February 2018
- e. Procurment.Army.Mil Knowledge Management Portal, Contracting Compass -
<https://spcs3.kc.army.mil/asaalt/procurement/Compass/SitePages/CompassSplash.aspx>
x
- f. SAM.GOV Wage Determinations - <https://sam.gov/content/wage-determinations>
- g. GSA Schedules - <http://www.gsaadvantage.gov/>
- h. Consumer Price Index (CPI) - <https://www.bls.gov/cpi/>
- i. Employment Cost Index (ECI) - <https://www.bls.gov/eci>

2. PURPOSE. The purpose of this Procurement Advisory Notice (PAN) is to
communicate general guidance for the development of the Independent Government
Estimate (IGE).

*This PAN supersedes PAN 16-06 - Preparation and Use of the Independent Government Cost Estimate
dated 23 November 2015

3. BACKGROUND.

a. The purpose of an IGE, also referred to as an independent government cost estimate, government cost estimate or independent government estimate, is to develop a probable cost of the supplies or services being acquired, to help determine the reasonableness of an offeror's proposed costs, and to determine how well the offeror understands the scope of work. The IGE is the Government's estimate of the resources and projected cost of the resources a contractor will incur in the performance of a contract. These costs 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 profit or fee. The IGE is also a procurement sensitive document and is considered part of the official contract file in accordance with FAR 4.803. Access to the IGE shall be on a need to know basis.

b. Acquisition statutes require analysis of price/costs to determine either a reasonable price in the event of a fixed priced contract or a realistic cost that will result from an award. The results of any contract action in terms of quality and reasonableness of price/cost relies heavily on the accuracy and reliability of the IGE. The IGE is one of many tools a Contracting Officer (KO) uses for a reasonable and realistic determination. In some cases, the Government's assessment of an offeror's quantity and price may be based solely on the IGE. All significant variations between the contractor's proposal and the IGE requires further analysis. Where variations exist, the Government should identify and correct inaccuracies in the IGE or use the IGE to negotiate a more realistic price/cost.

c. The information contained herein is not intended to cover every possible situation, but rather explain price or cost elements within the general context of their use. An IGE should only include those price/cost elements applicable to and developed from the performance work statement/statement of work/statement of objectives for the services to be performed or the description of the product(s) to be acquired.

4. APPLICABILITY.

a. An IGE is required for every procurement action in excess of the simplified acquisition threshold (SAT) in accordance with AFARS 5107.9002. Further, at the discretion of the KO, an IGE may be required for actions less than the SAT. Prior to accepting an IGE, the KO is required to ensure the following:

- (1) The IGE contains enough detail to verify the validity of the offeror's proposal;

(2) The IGE provides sufficient narrative and analytical detail, to include reference material, to support its preparation;

(3) The IGE includes a certification that the Government developed the IGE independently prior to seeking any formal proposals from contractors;

(4) The preparer reviews, signs by hand or by Common Access Card and dates the IGE, and includes the preparer's organization, position, title, and telephone number; and

(5) The preparer's immediate supervisor reviews, signs by hand or Common-Access Card and dates the IGE, and includes the reviewer's organization position, title and rank or grade and telephone number

b. The IGE is developed by the requiring activity and is often used to establish initial funding limits. It is calculated using mathematical techniques, but those techniques are applied to underlying values that were used because they are deemed, in the professional opinion/judgment of the subject matter experts in the requiring activity, reasonable "predictors" for estimating the price/cost of the current requirement.

c. The KO uses the IGE for technical and management information. The IGE is the baseline for evaluation of a realistic contract price/cost.

d. Format and contents of the IGE will vary in accordance with the complexity and value of the requirement. Complicated, large dollar acquisitions may contain dozens of price/cost elements while there many only be a few items or lines in the acquisition of a single item.

5. PRICE VS COST ESTIMATE

a. The Price Estimate is generally used for supplies, equipment, and simple services that are routinely available on the open market at competitive prices. The price estimate is required on all contract requirements over the SAT and must be independently developed based on a comparison and analysis of factors such as published catalogs prices, historical prices paid, market survey information, vendor price quotes, etc. Price estimates are required for commercial items (supplies or services), as addressed later in this PAN.

b. The Cost Estimate is a more detailed estimate than the price estimate and requires a breakdown of costs anticipated in performance of the contract and is generally used for a cost-type contract. A detailed estimate is required for services, construction, and non-commercial supplies estimated to exceed the SAT. Costs are generally divided into the primary cost elements of labor, payroll additives (burden or

fringe), other direct costs, indirect costs (overhead), general and administrative costs (G&A), and profit/fee.

6. SOURCES OF PRICE OR COST DATA. The estimating process requires price/cost estimators to identify and use reliable data in developing price/cost estimates. Some frequently used data resources include:

- a. Technical estimates
- b. Historical experience for same, similar, or related product/part/labor
- c. Historical rates, ratios, and percentage factors adjusted for current circumstances as necessary
- d. Budgetary & standard cost data
- e. Prior cost estimates adjusted for current needs
- f. Vendor quotes
- g. Prior purchase orders adjusted for quantity differences
- h. Pre-established Forward Pricing Rates and Factors
- i. Empirical data
- j. GSA schedules. The schedules are pre-priced and awarded to multiple firms for specific products or services. GSA schedules may be found at <http://www.gsaadvantage.gov/>.
- k. Published price lists. This is a listing from an individual company that is published for use by the general public.
- l. Catalog pricing. This is a pricing arrangement such as a company catalog.
- m. Market survey. A market survey is a comparison of the prices offered within the local area for an item. This is normally developed in conjunction with the KO.
- n. Previous buys. This is simply a comparison of previous purchases of the same item assuming comparability in quantities, conditions, terms, and performance times. Adjustments should be considered for inflation, etc., when appropriate.
- o. Wage Determinations

7. FORMATION OF THE IGE FOR A COST ESTIMATE. A Cost Estimate IGE is an estimate of the resources and projected cost of those resources a contractor will incur in the performance of the contract. It is important to establish reasonable and realistic cost estimates to help combat coercive and abusive labor practices. The DoD IGCE Handbook for Services Acquisition and the DoD COR Guidebook are excellent resources for developing an IGE for services.

The following categories are typical cost elements contained within an IGE:

a. Direct Labor Costs. Labor cost is the most significant part of the IGE in terms of dollars for services requirements. A direct labor cost is the labor directly applied to the performance of the contract. This category should also identify the labor categories and the number of hours required to perform the work, known as level of effort, for each category. Wage rates for each category of direct labor employees can be obtained in a number of ways. One source is the U.S. Department of Labor's on-line wage rate information that furnishes a listing of occupations and the minimum rate paid by geographical area. Additional sources of labor costs can be found in section 6 of this PAN.

b. Fringe Benefits. This is also known as the aggregate cost of all labor in a business that does not contribute directly to specific performance of the requirement. The benefits that most commonly comprise this cost element are: Health Insurance; Holiday; Vacation; Sick Time; Jury Duty; Pension; Education; Federal Insurance Contributions Act; Federal Unemployment Taxes; State Unemployment Taxes; and Workers' Compensation. Rather than encumbering the IGE preparer with the separate computations of these benefits, it is recommended that a straight-line approach using an average overall burden/fringe rate may be used to calculate the fringe benefit.

c. Other Direct Costs. This portion of the IGE provides an estimate of the types and quantities of materials, equipment, travel, etc. necessary for the contractor to perform the work under the awarded instrument. These are costs that can be charged directly against the specific requirement.

(1) Normally indirect supplies and materials are included in overhead or G&A, but any materials or supplies used in direct support of the contract, such as vehicles, subcontractor costs, lease of equipment, etc. used for the specific contract should be included in this cost element. Item descriptions, quantities, and related cost estimates can be obtained using catalogs, price quotes, market surveys, historical data, etc.

(2) Estimates for required travel should include, the travel destination, the number of trips (to and from), the number of personnel required to make the trips, the purpose of the trips, the expected number of days required, as well as air fares, rental

car needs, and per diem costs. The dollars associated with travel can be roughly estimated.

d. Overhead. This category includes all everyday operating costs which are not directly related to the performance of the requirement but are necessary in support of the contracted service. Overhead is expressed as a percentage of the sum of labor costs and fringe benefits. Overhead will vary from contractor to contractor based on the contractor's respective accounting system, ownership of facilities, location of work site, etc. To determine a realistic overhead rate, it is recommended that market research be performed to determine historical or current overhead rates used by companies providing the same or similar services.

e. G&A. G&A costs are those top level company expenses necessary to direct and control the company. G&A includes for example: employee training; office supplies; company officers, management, and administrative clerical wages and benefits; legal and accounting; liability insurance; business taxes; and all other home office company expenses necessary to control and direct the company.

(1) G&A costs are distributed equally across all contracts, Government and private sector.

(2) G&A is expressed as a percentage of the sum of all other expenses (labor, fringe benefits, other direct costs, and overhead). Market research is recommended to determine a realistic G&A rate.

f. Profit/Fee. Profit or fee is the dollar amount over and above any allowable costs paid to a contractor for performance. Profit/fee can and does vary. The size of the acquisition, in terms of both risk and difficulty, are primary considerations in the determination of a profit/fee. Consult with the KO when assistance is needed in estimating the profit or fee.

(1) For estimating purposes, a straight percentage may be used. This percentage is applied to the bottom line, excluding G&A and any directly reimbursable items, for a total overall price to the government.

(2) In the absence of historical data to estimate, a straight-line approach to profit/fee establishment is recommended. A profit of 10% for a firm-fixed-price service contract is a credible recommendation while a fee of 6% for a cost-plus-fixed-fee service contract is plausible.

g. Escalation. The impact of escalation must be considered when developing the IGE. Methodologies that can be used to project escalation are market research, the Department of Labor Consumer Price Index (CPI), and Employment Cost Index (ECI)

(1) A market survey will provide information on current market prices and the potential volatility of prices in the market place. Also, a review of Treasury interest rates will help provide an overall view of market prices.

(2) The CPI, found at <http://www.bls.gov/cpi/>, provides data and percentage of change in inflation factors. When projecting inflation, a review of the major cost factors for the specific requirement as well as the geographic locations for work performance will aid in the creation of escalation estimates.

(3) The ECI, found at <https://www.bls.gov/eci/>, looks at employment categories for different parts of the country and depending on where these services are required provides prices and labor escalation.

(4) Data collected from the past decade has shown a percentage of change for the collective items of cost ranging from a low of about 1.5% to a high of approximately 3.0%. Depending on the economy from year to year an escalation rate of approximately 1.5% - 2.5% per year advocated by the IGE preparer should normally be considered acceptable.

8. FORMATION OF THE IGE FOR A PRICE ESTIMATE.

a. A price estimate IGE is less complicated than the cost estimate IGE. It is generally used for products, equipment, and simple services that are routinely available commercially at competitive prices. The price estimate must be independently developed based on a comparison and analysis of factors such as published catalog prices, historical prices paid, market survey information, and contractor price quotes. The price estimate is not broken down into specific cost elements and depends upon bottom-line prices paid or available in the marketplace. The KO or contract specialist may help with research for pricing information, however it is the requiring activities responsibility to provide.

b. The IGE needs to describe the current requirement being estimated and what adjustments were made (e.g., scope, time, or quantity), and if a comparison was used. The IGE should also contain a justification explaining how the comparison was used, and why adjustments made are reasonable for calculating the IGE's projected/estimated price for the requirement. The estimate is a matter of determining the market value of an item and using that figure as the IGE, documenting your market research used to determine the market value, then furnishing both the IGE and a narrative describing the market research conducted and conclusions to the contracting office.

c. The IGE can be developed using various resources and methods. See section 6 for examples.

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d. Disclosure of information. Do not obtain official quotes or proposals from vendors. Caution is advised when contacting vendors, as advance procurement information is perceived as sensitive. If vendors are contacted, it is imperative to state the purpose of the contact is to conduct market research. In addition, contact might be considered a commitment by the vendor. Only a credit card holder acting within his/her spending limits and a KO may commit the government. Any other person may be held personally liable and disciplinary action can be taken. Before a vendor is contacted for information concerning a current or future purchase, it is highly recommended to contact the supporting contracting office. Contracting personnel are trained in information gathering techniques and can provide valuable insight to ensure no unauthorized information is released and inadvertent commitments are avoided.

9. SUMMARY. Overall, the IGE is a critical acquisition document with a level of detail similar to the complexity of the requirement with sufficient information to help the KO evaluate price/cost of the requirement.

10. PROPONENT. The proponent for this PAN is the U.S. Army Medical Research Acquisition Activity Contract Execution Oversight (CEO) Branch. Please submit any comments, concerns, and suggestions to the CEO Branch e-mail address at usarmy.detrick.medcom-usamraa.mbx.policy@mail.mil.

//ORIGINAL SIGNED//

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