NAVAIR COST EVALUATION
SOURCE SELECTION PROCESS
AND LESSONS LEARNED

DONCAS
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Presented by
Monica A Smith
NAVAIR 4.2.1
301-342-2415
Monica.a.smith@navy.mil
OUTLINE

• PURPOSE

• OVERVIEW OF AIR-4.2

• NAVAIR COST EVALUATION SOURCE SELECTION PROCESS
  – Planning And Preparation,
  – Performing Cost Proposal Evaluation
  – Post Award Activities

• LESSONS LEARNED

• QUESTIONS & ANSWERS
PURPOSE

• Present an overview of the NAVAIR Cost Department source selection process
  – The linkage between the technical assessment and the cost evaluation
  – Discussions with offerors
  – Documentation

• Present lessons learned from successful source selections and recent protest activity
The "TEAM" Cost Community is the recognized leader in providing a clear and comprehensive understanding of costs to support cradle-to-grave management of affordable systems.
4.0 RESEARCH & ENGINEERING

Cost is in Engineering Competency
AIR-4.2 CUSTOMERS/AGENTS
TYPES OF COMPETITIVE PROCUREMENTS

FORMAL
- ACAT I & II, Major Systems

TAILORED or COMPETITIVE AWARD PANEL (CAP)
- Greater Than $ 30 M RDT&E
- Greater Than $ 150 M Procurement

CAP
- Less Than $ 30 M RDT&E
- Less Than $150 M Procurement

AIR-4.10E
Uses SSEB/SSAC/SSA

AIR-4.10E (Tailored)
Uses SSEB/SSAC/SSA
or
AIR-2.0 (CAP)
Uses CAP/SSA

AIR-2.0
Uses CAP/SSA
AIR-4.2 SUPPORT OF AIR-4.10E

• AIR-4.2 supports AIR-4.10E for cost evaluations
  – ACAT I and ACAT II
  – Lower ACAT level Design source selections
  – CLS, Service, and Price source selections

• AIR-4.10E is the Source Selection process owner for NAVAIR
  – Since 1987, AIR-4.10E led 101 source selections
    • 27 were ACAT I/II
      – Of those, 3 were in FY07 – FY08
  – Average duration of the evaluation (Proposal Receipt to SSAC source selection recommendation) is 25 weeks
  – Planning for 2 ACAT I/II during FY09
Perform Life Cycle Cost Estimating
Perform Source Selection Cost Evaluation
Perform Earned Value Management
Establish/Maintain Databases & Methods
Develop Work Breakdown Structure

Cost Instructions
Evaluation Criteria Input
Cost Proposal Evaluation
Litigation Support
Post Award Conference support
SSEB/SSAC Member
SOW Inputs
Independent Government estimates

Budgets
Special Studies
Economics Analysis
CAIV
Total Ownership Cost
Affordable Readiness
What-if Drills
Risk Analysis
EOQ

M/S LCC Estimates
Trade Studies
Senior Management Briefs
IBR’s
Claims/Litigation
Analysis of Alternatives
Sensitivity Analysis
Negotiation Support
Business Case Analysis

Contract Requirements Determination
Earned Value Analysis (EVM)
In-House Earned Value Implementation
EVM Systems Validation Assessments
EACs
CDRL Inputs
Award Fee Inputs
Pre-award plans
IBR’s

Process Documentation
Databases
Methods

WBS Plans
881 Handbook Development

AIR-4.2 PROCESS UNIVERSE
AIR-4.2 SOURCE SELECTION PROCESS

ACAT I Process
-- Tailored for lower ACAT levels
GENERIC SOURCE SELECTION ROADMAP

Req'ts Developed
- SOO
- SPECs

Plan the Approach
- Acquisition Strategy/Plan
- SSP

Early Exchange w/Industry
- Industry Days
- Draft RFPs

Requirements and Criteria

Market Research

Evaluate Proposals

Receives Proposals
(PP/Exp Tech/Cost)

Competitive Range

Discussions w/Offerors (ENs)

Source Selection Process

Debrief

Contract

Decision

Past/Pert Exp

Tech Price

Compare Proposals

Evaluate FPRs

Request Final Proposal Revision (FPRs)

Complete Discussions

← Market Research →
BEST VALUE DECISION

DOCUMENTATION

- Evaluation Worksheets
- Unrated Summary Sheets
- Subteam Reports Rated Summary Sheets
- Team Reports
- SSEB Report /SSAC Report / SSAC Brief

PEOPLE

- Evaluators
- Subteam Leaders
- Subteam Leaders
- Team Leaders
- Team Leaders
- SSEB/SSAC

SSA Letter

Best Value Decision Results From Process of Distillation & Filtration
KEY SOURCE SELECTION DOCUMENTS

• Source Selection Plan
  – Top level source selection process and procedures; includes evaluation criteria

• Evaluation Plan and Team Plans (appendices)
  – Working level source selection procedures and team oriented evaluation approach and emphasis

• SSEB Report(s) (Competitive Range/Final)
• SSAC Proposal Analysis Report (PAR)
• SSA Decision Memorandum
2.1 PREPARE FOR SOURCE SELECTION

- Develop Cost inputs to the RFP
  - Evaluation Criteria
  - Proposal Instructions
  - SOO/SOW
  - CDRL
- Develop Evaluation Plan
- Develop Government Planning Estimate
RFP DEVELOPMENT
Document Linkage

- EVAL CRITERIA
- SECTION M
- REQUIREMENTS
- SPECS & SOO/SOW & CLINs
- EVALUATION PLAN
- HOW WE EVALUATE
- SECTION L
- PROPOSAL INSTRUCTIONS
DEVELOP EVALUATION CRITERIA

• Clearly define the work to be accomplished and include realistic requirements
  – Identify the most important requirements that are discriminators
  – Determine which of those discriminators can be fairly and consistently evaluated
  – Determine which of those discriminators can be “gamed” by the offeror, e.g. by good proposal writing

• New Analysis / Review of O&S as Cost Subfactor
  – Want to be sure O&S is a Discriminator
  – Labor and data required to complete is significant
EVALUATION FACTORS FOR AWARD
Examples

- TECHNICAL (Rating & Proposal Risk)
  - System Design
  - ILS and Project Mgmt

- PAST PERFORMANCE (Performance Risk)

- EXPERIENCE (Performance Risk)

- COST ($$$)
  - EMD Contract
  - Production Options
  - Remaining LCC

- PAST PERFORMANCE (Performance Risk)

- EXPERIENCE (Performance Risk)

- TECHNICAL (Rating & Proposal Risk)
  - System Design
  - Test and Evaluation

- COST ($$$)
  - EMD Contract
  - Production Options
  - Remaining LCC
COST RISK

- Cost Risk is assigned to the Cost Factor or Subfactor(s) that are related to the instant contract. This depicts any potential cost growth’s impact on program success.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Low</td>
<td><strong>L</strong> The Government’s Most Probable Cost Estimate substantially agrees with the proposed cost. To the extent it indicates the potential for cost growth, there is little likelihood that it would be significant enough to impact the success of the program.</td>
</tr>
<tr>
<td>Medium</td>
<td><strong>M</strong> The difference between the Government’s Most Probable Cost Estimate and the proposed cost indicates potential for cost growth that could have some impact to the success of the program.</td>
</tr>
<tr>
<td>High</td>
<td><strong>H</strong> The difference between the Government’s Most Probable Cost Estimate and the proposed cost indicates potential for cost growth that could have significant impact to the success of the program.</td>
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</tbody>
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SECTION L PROPOSAL INSTRUCTIONS

• What Cost and Technical data do you need to evaluate their proposal against the selection criteria (Section M)

HOW MUCH IS ENOUGH??
……IT DEPENDS

Amount of Proposal Information

HIGH <------------------- Technical Risk ---------------------------> LOW
Cost Types <----------------- Type of Contract---------------------> Price
2.2 PERFORM COST PROPOSAL EVALUATION

- Evaluate each offeror on their approach to meeting the requirements

- Evaluation Tasks:
  - Understand proposal data
  - Question poorly substantiated items
  - Generate Evaluation Notices
  - Accept substantiation or add your Independent Estimate

- Prepare briefing material
  - SSAC briefings
  - Face to Face discussions
2.3 PERFORM POST AWARD ACTIVITIES

- Debrief Offerors
- Support any protest activities
  - Develop Agency Report
LESSONS LEARNED
LESSONS LEARNED

• Prepare for Evaluation:
  – Budget in RFP is helpful
  – RFP should request electronic follow structure of hard copy
  – Section M Criteria – Cost Sub-factors:
    • Importance of Cost Factor compared to Technical, Experience, and Past Performance determined at SSEB level and approved by SSAC
    • Cost Sub-factors developed within AIR-4.2 by working with Program Manager, Chief Engineer, AMPL and recommendation provided to SSEB
    • O&S Flow chart
      – If a cost sub-factor, then determine with Technical Team (Eng & Logistics) what information to request in RFP and plan how to evaluate the non-cost and cost information
LESSONS LEARNED

• Prepare for Evaluation - Section L Instructions:
  – For Cost Sub-factors that are Gov’t estimates (e.g., O&S and Prod)
    • Carefully consider inputs requesting from offer
    • Ensure Tech and Cost team clear and in agreement on how the evaluation will be performed before requesting inputs
    • Possibly state what Gov’t will use as basis
      – Example – MER and provide in RFP Tech Library
  – Issue of how to ensure get good substantiation to cost proposal
    • RFP clear and information provided at Industry day, yet did not receive good substantiation
  – Issue of how to ensure receipt of Excel files
    • RFP clearly stated Excel format, yet received PDF or Word files
LESSONS LEARNED

• Prepare for Evaluation:
  – Ensure Technical and Cost have clear plan for how technical assessments will feed the cost evaluation
    • Integrated Master Schedule (IMS) assessment
    • Technical assessments from Engineering and Logistics
    • Software – how planning to perform evaluation if not a subfactor in Technical Volume
      – Software size assessment against requirements needs to feed cost evaluation
LESSONS LEARNED

• Prepare for Evaluation:
  – Program Office Government estimate prior to source selection is beneficial
    • Technical evaluators know what drive cost estimate and familiar with what cost team will need for evaluation
    • Government data gathered before source selection started
    • Provides an initial government estimate to compare to initial cost proposals
      – Helps identify areas that need focus
LESSONS LEARNED

• Perform Cost Evaluation:
  – Receive Proposals -- Contracts inventories proposals and loads electronic on SS server
    • Allow the time to do this function
  – Well documented Technical / Cost Interfaces
    • Log all meetings, attendees, and outcomes
      – Technical basis and rationale
      – Must be living document and kept up-to-date
      – Include Cost basis (rates, software productivity & growth, etc) and interfaces with DCAA etc
    • Keep a matrix of Cost and applicable Technical EN by WBS
    • Helpful with Post Award Activities if there is a protest
LESSONS LEARNED

• Perform Cost Evaluation:
  – EN’s – for each CBS/WBS element not substantiated
    • Ask as many times as needed to understand costs proposed, methodology, data, etc.
      – Consider asking again prior to closing discussions
    • This includes requested inputs for Cost Sub-factor that are Government estimates, e.g. Production and O&S
  – V&V all model links, inputs and trace to source
    • Trace Gov’t data source to original
      – If possible, do before evaluation begins
    • V&V one last time prior to Final Evaluation
  – Cost Risk beneficial in receipt or more realistic proposals
    • Closed gap through discussions from Initial Proposal to Final Revised Proposal (FRP)
LESSONS LEARNED

• Perform Documentation:
  – SSEB Report
    • Structure by WBS and only discuss those elements where delta between proposal and Gov’t estimate
    • Recommend a clauses stating “slight differences are due to rounding”
  – Clean up miscellaneous files and papers as a document
    • Organize electronic files by event
      – Initial evaluation
      – Face-to-face discussion
      – Final evaluation
      – Each SSAC briefing
LESSONS LEARNED

• Perform Post Award Activities
  – Debrief Offerors
    • Losers will not be happy
      – Be brief and straightforward
      – Answer the question that is asked
    • Winner will be ecstatic
      – Communicate concerns (done by PCO)
      – Be brief and straightforward
  – Plan for at least one offeror to protest
    • Think about during Prepare for Source Selection and Perform Evaluation
    • Document, document, document
QUESTIONS?
BACK-UP
AIR-4.2 TECHNICAL PROCESS UNIVERSE
2.1 PREPARE FOR SOURCE SELECTION

- Develop Cost inputs to the RFP
  - Evaluation Criteria
  - Proposal Instructions
  - SOO/SOW
  - CDRL

- Develop Evaluation Plan

- Develop Government Planning Estimate
TYPE OF CONTRACTS

• Cost Contract
  – Cost reimbursable, widely used on development contracts
  – Detailed proposal evaluation required
  – Overruns absorbed by the Government

• Price Contract
  – Widely used on production and maintenance contracts
  – Limited proposal evaluation, limited data requested
  – Overruns absorbed by the Contractor
WRITING PROPOSAL INSTRUCTIONS

• Request adequate information in “Cost Section L”
  – Selection Criteria in Section M”
    • Cost Subfactors
      – Contract Cost
      – Remaining LCC, e.g., Production and O&S
  – Type of Contract
    • Cost Type or Price
  – Meet Decision Authority requirements
WRITING PROPOSAL INSTRUCTIONS

Section L Proposal Instructions

• Provide enough instruction/guidance to ensure that the offeror:
  – Understands what information is wanted and purpose
  – Consistent format from one proposal to the next
    • Facilitating a fair, consistent, and efficient evaluation
• Use clear and definitive instructions
• Do not cause offerors unnecessary extra work
  – Allow similar contractor formats
    • Discuss in Draft RFP or Pre-solicitation Conference
  – WBS level should be at the offerors level of substantiation
KEEP IN MIND SPECIFIC INFORMATION

Type of information requested for different situations

– Completeness, Reasonableness, Realism
– Standard Data
– How is the data used?
– What are the opportunities for streamlining the cost/price data requirement?
– What can industry do to improve their cost proposals?
“STANDARD” COST DATA

• Assumptions
  – Cost estimating assumptions include technical and programmatic information

• Product WBS
  – Labor hours and labor rates
  – Overhead rates
  – Labor mix
  – Basis of Estimate/methodologies used
    • Bill of Material, Level of Effort, Analogy, Cross Checks

• Cost-to-Sell Equations

• Quantity Ranges

• Cross Reference WBS to CLIN
HOW IS THE DATA USED?

• Basis of Estimate (sound methodologies?)
• Extrapolation (projections based on past costs)
• Parametric (mathematical models)
• Analogous (similar systems)
• Engineering Estimate (bottoms–up)
• Cross checks
• Estimate by WBS not CLINS
  – Fixed Price and Services contracts tend to use CLINs vice a WBS structure
DRIVERS: TYPE OF CONTRACT

• Cost Plus:
  – Realism is typically assessed. Information is usually requested to develop a Government estimate based on the offerors approach. Completeness supports Realism.

• Fixed Price Incentive (FPI)
  – Realism may be assessed up to the ceiling
  – Significantly less data than Cost Plus
  – Reasonableness is a significant cost evaluation

• Firm Fixed Price (FFP)
  – Reasonableness only (Realism for unique circumstances, but assessed as risk)
  – No Independent Government estimate
  – Minimal data require, but some is needed
2.2 PERFORM COST PROPOSAL EVALUATION

- Evaluate Each offeror on their approach to meeting the requirements

- Evaluation Tasks:
  - Understand proposal data
  - Question poorly substantiated items
  - Generate Evaluation notices to get items clarified
  - Accept substantiation or add your Independent Estimate

- Prepare briefing material
EVALUATION NOTICES (EN)

• ENs are a question we have about the proposal information provided by the offeror

• They can be in the form of:
  – Clarifications: A description, definition, or substantiation did not make sense
  – Additional Information: Items were missing in the proposal or we want further explanation of an area

• ENs are a form of Discussions
THE THREE STEPS OF DISCUSSIONS

Government sends ENs and the offerors respond in writing

Face to Face Discussions (if necessary)

Offeror documents oral responses and sends to the Government
FINAL PROPOSAL REVISIONS

- After Discussions and prior to the PCO request for Final Proposal Revisions, the SSEB may brief the SSAC on the concluded Discussions

- The Government requests or allows Proposal Revisions to clarify and document understandings reached during Discussions

- All offerors in the Competitive Range at the conclusion of Discussions shall be given an opportunity to submit a Final Proposal Revision

- Offerors are advised that the Final Proposal Revisions shall be in writing and that the Government intends to make Award without obtaining further revisions

- After receipt of Final Proposal Revisions, the final evaluation is conducted and the results are briefed by the SSEB to the SSAC

SEE FAR 15.307 - PROPOSAL REVISIONS, FOR ADDITIONAL INFORMATION
COMPLETING THE SOURCE SELECTION

- Brief Results to SSAC
  - No trivial event, Cost pulls together all the issues
  - Must be able to explain the differences
    - Contractor to Government
- SSEB Cost Documentation
  - Must be clean
    - Assume a Protest will happen
- SSAC Proposal Analysis Report (PAR)
  - Includes briefing info in report form
  - Includes all SSEB results
  - Draws on a portion of SSEB documentation
- SSA Decision Memorandum
WRITING THE SSEB COST REPORT

• Provide sufficient information to enable the SSAC and SSA to:
  – Compare the offers and make trade-off decisions
  – Understand the differences
    • Contractor vs. Contractor
    • Contractor to Government
    • Government to Government
  – Confidence that the cost/price evaluation is fair and reasonable
2.3 PERFORM POST AWARD ACTIVITIES

- Debrief Offerors
- Support any protest activities
  - Develop Agency Report
AWARD PROCESS

• Evaluation is complete

• Once all FPRs are evaluated and findings documented:
  – SSA Selects the source
  – Business Clearance is processed
  – CHINFO/Award announcement is arranged
  – Contract is awarded
  – Debriefings are conducted
    • Share as much information as permitted by the FAR
    • Offerors have 10 days to protest
SUPPORT ANY PROTEST ACTIVITIES

• Office of Counsel leads protest activities

• Document Discovery
  – Proposals including EN responses
  – Cost Evaluation and all supporting files
  – Cost SSEB Report

• Cost inputs to protest rebuttal
  – Statement of Facts (timelines)
    • Well documented technical/cost interface during evaluation expedites this process

• Agency Report

• GAO hearings