



Department of Energy

Washington, DC 20585

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MEMORANDUM FOR DISTRIBUTION

FROM: J. E. SURASH 
HEAD OF CONTRACTING ACTIVITY
OFFICE OF ENVIRONMENTAL MANAGEMENT

SUBJECT: Head of Contracting Activity Directive 2.10, Independent
Government Cost Estimates

Attached is Head of Contracting Activity (HCA) Directive 2.10, Revision 0. The purpose of this directive is to establish an Office of Environmental Management (EM) Policy requiring the development of Independent Government Cost Estimates for priced contract actions. The policy is expected to improve acquisition and contract management activities by making them an integral part of the EM acquisition process.

HCA Directive 2.10, Revision 0, is effective immediately. If you have any questions, please feel free to contact Mr. Michael Howard, Director, Office of Procurement Planning, at (202) 586-8162.

Attachment:

1. HCA Directive 2.10, Revision 0, Independent Government Cost Estimates



Distribution

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**U. S. DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
Environmental Management
Head of Contracting Activity Directive**

Title: Independent Government Cost Estimates

Directive:

Environmental Management
Head Contracting Activity 2.10

Revision Number: 0

Effective Date:

1. **Policy:** The Environmental Management Program shall operate under the following programmatic requirements:
 - a. Independent Government Cost Estimates (IGCE) are required to support proper planning of acquisitions and to implement program management and oversight per Office of Management and Budget's (OMB) Circular A-11, Part 7, Capital Programming Guide. It is also considered as one of the best practices in the Office of Procurement Planning's "*Guide to Best Practices for Performance-Based Service Contracting.*" Consequently, it is the policy of the Office of Environmental Management (EM) that an IGCE shall be prepared and furnished to the Contracting Officer (CO) at the earliest practicable time for each proposed contract action anticipated to exceed the Simplified Acquisition Threshold (SAT). The estimate shall be prepared in as much detail as though the Government were competing for the award. The CO may also request an IGCE when the anticipated cost is under the SAT amount.
 - b. It is the policy of EM that the IGCE will be used as the Government's own estimated cost/price of the proposed acquisition.

Its purposes are to: (1) serve as the basis for reserving funds for the contract as part of acquisition planning; (2) serve as a basis for comparing costs or prices proposed by offerors; (3) assist in determining cost/price realism and/or reasonableness; (4) assist in determining whether or not the offeror/contractor understands the scope and contract requirements; and (5) assist in establishing the Government's initial negotiation position.

- c. An IGCE is an estimate prepared for evaluating and validating contractor proposals presented during the Acquisition or Contract Management phase and represent a specific scope of work that will be accomplished over a specific timeframe. The IGCE is based on the scope of work outlined in the solicitation and established contract requirements.

2. **Objective:** The objective of this directive is to establish the policy and institutionalize the use of IGCEs to improve EM's acquisition and contract management efforts.
- a. IGCEs are an integral part of an effective acquisition program and support the EM Acquisition Center Business Model. For the purposes of this directive, the IGCE refers to the cost estimate for a scope of work for any priced contract action.
 - b. Acquisition regulations require analysis of price/cost to determine either a reasonable price in the event of a fixed priced contract or a realistic cost will result from award of all contract requirements. The results of any contract action in terms of quality and reasonableness of price/cost relies heavily on the accuracy and reliability of the IGCE.
 - c. An IGCE should be developed based on the exact same Statement of Work (SOW) or Performance-based Work Statement (PWS) (describing scope, terms and conditions, contract clauses, etc.) used by the contractor. It is the government's estimate of the resources and projected costs 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, as well as general and administrative expenses, profit or fee.
 - d. The IGCE plays an important role in the contractor bid evaluation and selection/award processes, and its development can also be a great value in making the actual bid documents and contract language more effective by clearing up ambiguous elements and identifying possible scope omissions.
 - e. The IGCE can play a vital role in helping identify what is "reasonable" because the IGCE is the Government's best independent estimation of the potential cost of a contract. A detailed and well-documented IGCE is a valuable tool for supporting cost realism analyses. The IGCE also supports a Price Analysis, which is an estimate of the "should pay" price that the Government should reasonably expect to pay based on current competitive market conditions. The IGCE is an aid in deciding whether to go ahead with the acquisition as well as provide supportive documentation that is used during the source selection phase.
3. **Applicability:** This directive applies to all EM organizations.

EM personnel having contracting authority to obligate EM or non-EM funds and to personnel otherwise involved in processing EM procurements under the cognizance of the EM Head of Contracting Authority (HCA).

4. **Requirements:**

All EM Priced Contract Actions:

- a. An IGCE of total contract costs shall be prepared for each proposed contract action that exceeds the SAT and furnished to the Contracting Officer (CO) at the earliest practicable time for each proposed contract action. A preliminary IGCE shall be furnished before the final Request for Proposal (RFP) is released, and may be amended based on changes to the RFP. A final IGCE reflecting any changes to the scope of work shall be furnished before receipt of proposals.
- b. The IGCE is a cost estimate based on the requirements [SOW, PWS, Statement of Objectives, or other specifications], and historical experience, without the influence of potential contractor sources.
- c. When an Acquisition Integrated Project Team (AIPT) or Source Evaluation Board (SEB) is established for the priced contract action, a cost engineer/estimator who is responsible for leading the development of the IGCE shall be included on the AIPT. The Acquisition Planning Manager (APM), CO, and AIPT shall provide all necessary acquisition documentation (i.e., SOW or PWS that describes scope, contract terms and conditions, contract clauses, etc.) that will be used as the basis for the contractor's proposal to the cost engineer/estimator to be used as the basis for the IGCE. Input from the program or project-specific technical and business disciplines is also essential to ensure the IGCE is comprehensive, high quality, and credible.
- d. For any other priced contract action not covered by paragraph 3c, the CO, in coordination with the site or project technical authority, shall be responsible for obtaining the resources necessary to prepare the IGCE.
- e. This HCA Directive does not apply to grants, cooperative and financial agreements executed by EM.

Cost Engineer/Cost Estimator:

- a. The cost engineer/cost estimator shall ensure an IGCE of total contract costs for any priced contract action shall be prepared and furnished to the CO at the earliest practicable time for each proposed contract action. The IGCE shall be a high-quality estimate that is credible, well-documented, accurate and comprehensive. An IGCE should be:
 - Credible when the assumptions and estimates are realistic. It has undergone a rigorous peer review, the level of confidence associated with the point estimate has been identified and a sensitivity analysis (i.e., an examination of the effect of changing one variable relative to the cost estimate while all other variables are held constant in order to identify which variable most affects the cost estimate)

- has been conducted;
- Well-documented when supporting documentation includes a narrative explaining the process, sources, and methods used to create the estimate and identifies the underlying data and assumptions used to develop the estimate;
 - Accurate when actual costs deviate little from the assessment of costs likely to be incurred; and
 - Comprehensive when it accounts for all possible costs associated with the priced contract action, is structured in sufficient detail to insure that costs are neither omitted nor duplicated, and has been formulated by an estimating team with composition commensurate with the assignment.
- b. For all EM Priced Contract Actions of \$5M and above the IGCE should be prepared using The Twelve Steps of High-Quality Cost Estimating Process identified in the U.S. Government Accountability Office (GAO) Cost Estimating and Assessment Guide (<http://www.gao.gov/products/GAO-09-3SP>).
- c. For actions below the \$5M threshold, various less rigorous estimating practices may be used based on the complexity of the requirement to achieve a credible, well-documented, and accurate IGCE. There is no standard presentation format for IGCEs. The Federal Acquisition Regulation (FAR) 4.803 (a) (7) states that Government estimates of contract prices are normally included in contract files. FAR 15.404-1 (b) (v) states the Government may compare proposed prices with the IGCEs as a price analysis technique to ensure a fair and reasonable price. Appendix A-1 provides a template for an IGCE that can be used to support the purchase of supplies, equipment, and simple services that are routinely available on the open market at competitive prices and may be developed based on readily available current market prices (such as catalog or list prices) or on previous prices proposed in competitive situations after they are adjusted to account for current market trends and inflation. A detailed cost estimate is required for services, construction, and non-commercial supplies when the total acquisition price is estimated to exceed the simplified acquisition threshold of \$150K, but be less than the \$5M threshold identified above. These IGCEs must provide separate cost elements for major components of the price including but not limited to labor, labor hours, direct labor rates, payroll additives (burden or fringe), other direct costs, indirect costs (overhead), G&A, and profit/fee. Appendix A-2 provides a summary IGCE template applicable for these situations.
- d. All IGCEs shall include a narrative Basis of Estimate (BOE) that details the premise, or basis, from which critical aspects of the IGCE were developed including cost and labor estimates, material availability, any assumptions or deviations, any studies or analysis used as a reference and any other details which impacted the cost estimate shall be provided to the CO when the IGCE is published. When prepared correctly, any person with contract or project management experience can use the BOE to understand and assess the estimate, independent of any other supporting documentation.

5. **Safeguarding Independent Government Cost Estimates:**

- a. It is EM policy that access to information concerning the IGCE shall be limited to Government personnel whose official duties require knowledge of the estimate. An exception to this rule may be made during contract negotiations to allow the contracting officer to identify a specialized task and disclose the associated cost breakdown figures in the IGCE, but only to the extent deemed necessary to arrive at a fair and reasonable price. The overall amount of the Government's estimate shall not be disclosed except as permitted by agency regulations.
- b. All IGCEs will be marked with the following statement: "*FOR OFFICIAL USE ONLY*". Detailed identification and protection requirements are contained in DOE Order 471.3, Identifying and Protecting Official Use Only Information and DOE Manual 471.3-1, Manual for Identifying and Protecting Official Use Only Information. In addition, if the IGCE has been prepared for a competitive source selection, the following marking should be applied: "*Source Selection Information – see Federal Acquisition Regulation (FAR) 3.104-4*".

6. **Responsibilities:** The following summarizes roles and responsibilities for the IGCE.

- a. Site or Field Office Managers are responsible for:
 - Ensuring that qualified cost estimating resources are made available to the AIPT or SEB, and CO; and
 - Ensure the necessary SOW or PWS meet the needs of the CO for each priced contract action.
- b. Field Office Procurement Directors are responsible for:
 - Ensuring that IGCEs are completed in accordance with this Directive.
- c. APM is responsible for:
 - Working with the Site or Field Office Manager and/or Field Office Procurement Directors to ensure that sufficient and adequate cost estimating personnel are available in a timely manner to meet the needs of the priced contract action; and
 - Ensuring that sufficient time is included in the acquisition schedule to adequately develop the preliminary (if required) and final IGCE.
- d. CO is responsible for:
 - Making arrangements to obtain an IGCE prior to release of the final RFP, or after receipt of contractor's Request for Equitable Adjustment (REA) determined to have merit, for each priced contract action; and
 - Making arrangements to obtain an amended final IGCE prior to receipt of the proposal, if appropriate for each priced contract action.

- e. Federal Project Directors, Operations Activity Managers, and EM Program Managers are responsible for:
- Defining the necessary contract technical requirements, performance work statements or scope of work (scope, schedule milestones, performance metrics, project/program assumptions, and program/project risks) that form the basis of the IGCE;
 - Communicating all changes in contract requirements in a timely manner to the cost engineers and cost estimators; and
 - Assisting cost engineers and/or cost estimators by conducting peer reviews if needed for the IGCE and supporting Basis of Estimate (BOE) document.
- f. Cost Engineers and/or Cost Estimators are responsible for:
- Developing the IGCE in accordance with established DOE policies, guides, recommended practices, and this Directive;
 - Developing the Basis of Estimate (BOE) that describes how the IGCE was developed, and defines the information used in support of establishing the estimated costs;
 - Developing a sound BOE for the IGCE that may be used to support cost realism and/or pricing analysis, and defines the information used in support of the IGCE;
 - Becoming familiar with the PWS/SOW and the program requirements that the acquisition or contract change is related to in order to provide a credible, well-documented, accurate and comprehensive IGCE;
 - Assisting the CO to interpret and applying the IGCE for use in cost/price realism and cost/price analysis; and
 - Maintain and dispose the IGCE in accordance with established DOE Records Management requirements (DOE O 243.1A).

7. **Reference:**

- a. OMB, Circular A-11
- b. Office of Federal Procurement Policy, “*Guide to Best Practices for Performance-Based Service Contracting*” and “*The Seven Steps to Performance-Based Acquisition*”
- c. Federal Acquisition Regulation (FAR Part 15 & 36)
- d. DOE Acquisition Regulation (DEAR Part 915 & 936)
- e. DOE Acquisition Guide (Chapter 15.4-4)
- f. DOE Cost Guide (DOE G 413.3-21)
- g. GAO Cost Estimating and Assessment Guide (GAO-09-3SP)
- h. DOE O 413.3B (Program and Project Management for the Acquisition of Capital Assets)
- i. DOE O 430.1B, Change 1 (Real Property Asset Management)

- j. DOE O 471.3, Admin. Chg. 1 (Identifying and Protecting Official Use Only Information)
 - k. DOE M 471.3-1, Admin. Chg. 1 (Manual for Identifying and Protecting Official Use Only Information)
 - l. DOE O 243.1A (Records Management Program)
8. **Point of Contact:** Mr. Terry J. Brennan, Assistant Director, EM Consolidated Business Center, Office of Cost Estimating & Project Management Support, (513) 246-0546, terry.brennan@emcbc.doe.gov
9. **Procedures:**
None
10. **Appendices:**
Appendix A-1: IGCE Example – Supplies
Appendix A-2: IGCE Example – Services and Construction

Approved by

Signature:

Name & Title:  J. E. Surash, Deputy Assistant Secretary
for Acquisition and Project Management

Date:



APPENDIX A-1

INDEPENDENT GOVERNMENT COST ESTIMATE TEMPLATE

PRICE ESTIMATE (for Supplies)

SIMILAR PROCUREMENT (List as applicable)

Reference	Date	Item Description (Quantity & Unit Cost)	Price

ESTABLISHED CATALOG PRICE (List as applicable)

Source	Date	Item Description (Quantity & Unit Cost)	Price

MARKET SURVEY (List as applicable)

Source	Date	Item Description (Quantity & Unit Cost)	Price

TOTAL of ALL LISTS _____

Prepared by:

Name Date

Approved by:

Name Date

APPENDIX A-2**INDEPENDENT GOVERNMENT COST ESTIMATE****For Official Use Only***Procurement Sensitive -- Source Selection Information**(Summary Cost Estimate Template for Services and Construction)*

Direct Labor Cost						
CLIN	Description of Service or Work Performed (from PWS)	Labor Category (list by type)	Qty	UOM	Unit Labor Cost (Fully Burdened)	Total Direct Labor
1	<i>Prepare NEPA Evaluation for DOE-EM Site X</i>					
1a	NEPA Evaluation	Jr. Environmental Engineer	680	Mhrs	\$ 95.00	\$ 64,600
1b	Field Investigations	Survey Crew	2	Weeks	\$ 1520.00	\$ 3,040
1c	Regulatory Compliance Review	Sr. Environmental Engineer	480	Mhrs	\$ 132.00	\$ 63,360
<i>Note: Insert as many rows as needed to capture all labor activities being estimated</i>						
Total Direct Labor						\$ 131,000
Labor Additives or Indirect Costs		As percentage applied to total direct labor (32%) (Describe components included in the supporting Basis of Estimate document)				\$ 41,920
Total Labor Cost						\$ 172,920
Supplies & Other Direct Costs						
CLIN	Supplies & Other Direct Costs (List by type)	Commodity Purchased	Qty	UOM	Unit Cost	Total Direct Labor
1	<i>Prepare NEPA Evaluation for DOE-EM Site X</i>					
1a	Supplies	General Office Supplies	1	Lump Sum	\$ 500.00	\$ 500
1b	Material	Survey Tape & Markers	1	Lot	\$ 250.00	\$ 250
1c	Equipment	Field Office Rental	2	Month	\$ 2820.00	\$ 5,640
1d	Equipment	Survey Equipment (rental)	2	Weeks	\$ 2600.00	\$ 5,200
1e	Other Direct Cost	Subcontract (H2O)	500	Gallons	\$ 1.25	\$ 625
<i>Note: Insert as many rows as needed to capture all Supplies & Other Direct Cost activities being estimated. Equipment rental or purchases should be itemized separately.</i>						
Total Supplies & Other Direct Cost						\$ 12,215
INDIRECT COSTS (OVERHEAD), GENERAL and ADMINISTRATIVE, and PROFIT/FEE						
Subtotal (Labor and Other Direct Cost from above)						\$ 185,135
Indirect or Overhead Cost @ XX% (Describe components included in the supporting Basis of Estimate document (required))						\$ 74,050
Subtotal						\$ 259,185
General & Administrative (G&A) @ XX% (Describe components included in the supporting Basis of Estimate document)						\$ 20,735
Subtotal						\$ 279,920
Profit or Fee @ XX% (Describe components included in the supporting Basis of Estimate document)						\$ 27,992
Total Estimated Cost						\$ 307,912

Prepared by:

Name	Date

Reviewed by:

Name	Date

Approved by:

Name	Date

For Official Use Only
Procurement Sensitive -- Source Selection Information

Notes:

1. *A narrative Basis of Estimate (BOE) that details the premise, or basis, from which critical aspects of the IGCE were developed including cost and labor estimates, material availability, any assumptions or deviations, any studies or analysis used as a reference and any other details which impacted the cost estimate shall be provided to the CO when the IGCE is published. When prepared correctly, any person with contract or project management experience can use the BOE to understand and assess the estimate, independent of any other supporting documentation.*
2. *Resources and tools are available to assist EM project and contract management professionals during the development of IGCEs. The EM Applied Cost Engineering (ACE) Team was established to promote continuous cost improvements through dissemination of cost engineering tools, methods, techniques, best practices, and lessons learned across the EM complex. One of the primary goals of the EM ACE Team is to ensure that DOE EM Project and Contract Management professionals have adequate and appropriate skills, training, and tools in the areas of cost estimating and cost validation. For assistance related to IGCE development please visit <http://www.emcbc.doe.gov/Office/AceTeam>.*