



DEPARTMENT OF THE ARMY
US ARMY MEDICAL RESEARCH AND MATERIEL COMMAND
504 SCOTT STREET
FORT DETRICK MD 21702-5014

NOV 23 2015

MCMR-AAP-A

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

1. PURPOSE. The purpose of this memorandum is to establish general guidance for the development of the Independent Government Cost Estimate (IGCE) and to describe how the IGCE fits into the contracting process.

2. BACKGROUND.

a. The IGCE 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.

b. Acquisition statutes 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. The IGCE is one of many tools a Contracting Officer (KO) uses for this purpose. In some cases, the Government's assessment of an offeror's quantity and price may be based solely on the IGCE. All significant variation between the contractor's proposal and the IGCE requires further analysis. Where variations exist, the Government should identify and correct inaccuracies in the IGCE or use the IGCE to negotiate a more realistic vendor price/cost.

c. The information contained herein is not intended to cover every possible acquisition, but rather explains elements of price/ cost within the general context of their use. Complicated, large dollar acquisitions could contain dozens of cost elements while there could be but a few in the acquisition of a single item, lesser dollar procurement. While the following explanations and descriptions of cost elements are sound, the IGCE should include only those cost elements applicable to and developed from the performance work statement for the services to be performed or the description of the product to be acquired.

*This USAMRMC PAN replaces USAMRMC PAN 07-01, Preparation and Use of the Independent Government Cost Estimate (IGCE), 30 January 2012.

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

d. The IGCE is a procurement sensitive document and should be handled accordingly. **Access to the IGCE shall be on a need to know basis.** It is an official contract file required document in accordance with the Federal Acquisition Regulation (FAR) Subpart 4.803(a).

3. APPLICABILITY.

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

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

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

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

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

(5) The IGCE includes a signed, by hand or Common-Access Card, certification that the Government developed the IGCE independently prior to seeking any formal proposals from contractors.

b. The IGCE is developed by the requiring activity and is often used to establish initial funding limits. Thus, it may become a practical – if sometimes temporary – ceiling on the value of the ultimate contract/task requirement. 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 IGCE for technical and management information. The IGCE is the baseline for evaluation of a realistic contract price/cost.

d. Format and contents of the IGCE will vary in accordance with the complexity and value of the requirement. The following guidelines may be used for all IGCEs. A straight-line sample IGCE has been provided in *Attachment A* for less complicated services type requirements.

4. DEVELOPING THE IGCE.

a. The IGCE may be referred to as either an independent government cost estimate, government cost estimate or independent government estimate. The primary purposes of the IGCE are 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. A simple estimate of current market prices or historical prices may be adequate on supply type requirements or services up to the simplified acquisition threshold. However, a more complete price or cost estimate is required for requirements exceeding the simplified acquisition threshold. An explanation of the differences between a price and a cost estimate follows:

(1) 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 simplified acquisition threshold 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. This type of estimate is commonly referred to as the independent government estimate. Price estimates/ independent government estimates are required for "Commercial" items as addressed later in this PAN. When developing this type of estimate, focus should be placed on:

- (a) Prices and quotes, such as published or current catalog prices;
- (b) Previous prices and quantity purchased;
- (c) Quantity of items to be purchased; and
- (d) Market Surveys and other sources of miscellaneous pricing data.

(2) The **Cost Estimate** is a more detailed estimate than the price estimate and requires a breakdown of costs anticipated in performance of the contract. A detailed estimate is required for services, construction, and non-commercial supplies estimated to exceed the simplified acquisition threshold. 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.

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

An IGCE for a contract action to acquire services will normally contain the following elements of cost in the chronological order denoted. A short discussion of the breakdown for cost elements in each area follows below.

- (a) Direct Labor Costs
- (b) Fringe Benefits
- (c) Other Direct Costs
- (d) Overhead
- (e) G&A
- (f) Profit/Fee

b. It is impossible to estimate costs with absolute certainty. However, complete documentation of the developed costs will provide a good starting point to compare and assess a contractor's cost estimate.

c. Undocumented assumptions are often the cause of poor cost estimates or misunderstandings between the estimator and other members of the acquisition team. Always fully document underlying assumptions. The Basis of Estimate (BOE) and its supporting documentation capture how the estimate was built and is an important tool used by the KO for negotiation. The BOE should address how the estimate was calculated, what methodology was used (historical costs, software development models, published prices lists, average costs, industry experience/engineering estimates), what information, equations, rates, factors, tools, and models were used, and, where information was obtained if the current estimate is a follow-on to a previous project. *Attachment B* provides a sample format for a BOE to be provided with the IGCE to document all assumptions used in the IGCE development.

d. Sources. The estimating process requires cost estimators to identify and use reliable data in developing cost estimates. Some frequently-used data resources include:

- (1) Technical estimates
- (2) Historical experience for same, similar, or related product/part/labor
- (3) Historical rates, ratios, and percentage factors adjusted for current circumstances as necessary

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

- (4) Budgetary & standard cost data
- (5) Prior cost estimates adjusted for current needs
- (6) Vendor quotes
- (7) Prior purchase orders adjusted for quantity differences
- (8) Pre-established Forward Pricing Rates and Factors
- (9) Empirical data

5. FORMATION OF THE IGCE FOR SERVICES.

a. Direct Labor Costs.

(1) Labor costs are always the most significant part of the IGCE in terms of dollars for services requirements. Labor costs are incurred in two ways; direct and indirect. Direct labor is the labor directly applied to the specific performance of contract requirements while indirect labor includes costs of personnel in a support capacity that augment the direct performance of the service contracted. For example, for a software development contract being performed at a Command location, the on-site software engineer spending 100% of his work time developing the needed software is direct labor. The project manager overseeing the efforts of the software engineer who spends 50% of his total working time on this contract is also considered direct labor. However, the secretary located in the firm's home office whom very infrequently prepares and transmits correspondence regarding this contract and whose corporate time is spent almost entirely on endeavors not associated with this contract is indirect labor. This segment of the IGCE is devoted to direct labor only. Indirect labor costs are captured in the portion called overhead or general and administration.

(2) The IGCE must consider realities of the work environment. As benefits to include leave and holidays are part of the contract, they must be included into the cost of any Government contract. To develop costs for a typical service contract year, use the average work year of 2080 hours (40 hours/week, 52 wks/yr). These are available hours - that is what will be estimated and paid to the employee under the contract. However, recognize your work effort needs to also consider productive hours to determine number of contract employees required. Productive hours are the number of hours an employee actually performs his/her duties. When full time employees are anticipated, a good rule of thumb is to use 1880 hours (2080 hrs less 80 hrs holidays, 80 hrs vacations, and 40 hrs sick leave) as productive hours. When part-time employees are anticipated, productive hours using a basis of 1920 hours (2080 hrs less

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

80 hrs holiday, 80 hrs vacation, and 0 hrs sick leave) may be used. Actual available/productive hour patterns may vary by service/industry or contract requirement.

(3) Wage rates for each category of direct labor employee can be obtained in a number of ways. One source is the Department of Labor's on-line wage rate information that furnishes a listing of occupations and the minimum rate paid by geographical area. Another source is www.salary.com or www.simplyhired.com/salaries.html in conjunction with GSA's Contract Awarded Labor Category (CALC) tool. The CALC tool allows acquisition professionals to access prices for 48,000 labor categories from more than 5,000 recent GSA contracts. Finally, another source of wage data is the Government's own rates/ salaries paid for same or similar labor categories.

b. Fringe Benefits. 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, and Sick Time; Jury Duty; Pension; Education; Federal Insurance Contributions Act, Federal Unemployment Taxes; State Unemployment Taxes; and Workers' Compensation. Rather than encumbering the IGCE preparer with the separate computations of these benefits, it is recommended that a straight-line approach using an average overall burden rate of 30 - 35% of the total for direct labor costs be used to compute the labor burden.

c. Other Direct Costs. This portion of the IGCE 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 generally 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. 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.

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

(1) 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.

(2) Note: Many companies, especially smaller businesses, perform one basic type of activity and operate from one location. Such companies will normally have only an overhead rate which contains all their everyday operating and top level company expenses.

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 contracting office 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.

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

g. Escalation. The impact of escalation must be considered when developing the IGCE. Two methodologies that can be used to project escalation are market research and the Department of Labor Consumer Price Index (CPI).

(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) 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 IGCE preparer should normally be considered acceptable.

6. FORMATION OF THE IGE (Price Estimate) FOR COMMERCIAL SUPPLIES.

a. A Commercial Supply "Independent Government Estimate (IGE)" is much less complicated than the IGCE for a service contract and is considered a "**Price Estimate.**" The price estimate is generally used for products, equipment, and simple services that are routinely available on the open market at competitive prices. The price estimate is required on all commercial contract requirements over the SAT and 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 more upon bottom-line prices paid or available in the marketplace. The Contracting Officer or Specialist may help with research for pricing information.

b. The IGE needs to describe the current requirement being estimated and what adjustments were made (e.g., scope, time, or quantity), if a comparison was used. The IGE should also contain descriptive justifications to establish how the comparison was used, and why the adjustments made are reasonable for calculating the IGE's projected/estimated price for the requirement at hand. It is a matter of determining the market value of an item and using that figure as the IGE, documenting your research used to determine the market value, then furnishing both the IGE and a narrative describing the research conducted and conclusions along with your funded procurement requisition to the contracting office. *Attachment C* is provided as a sample IGE that can

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

be used for commercial (simple) services. *Attachment D* is provided as a sample IGE worksheet that can be used for commercial products and simple Services.

c. The IGE can be developed using various resources and methods including:

(1) General Services Administration (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/>.

(2) Published price lists. This is a listing from an individual company that is published for use by the general public.

(3) Catalog pricing. This is a pricing arrangement such as a company catalog.

(4) Market survey. A market survey is comparison of the prices offered within the local area for an item. This action is normally developed in conjunction with the Contracting Officer. (See details for Market Survey under a separate subject at this website).

(5) 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.

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.

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

Attachment A – **SAMPLE** for Complex Services

Independent Government Cost Estimate for Software Engineering Services

Note 1: The IGCE is often used to establish initial funding limits. Therefore, in the professional opinion/judgment of the subject matter experts in the requiring activity – the IGCE should represent reasonable “predictors” for estimating the cost of the current requirement.

Note 2: The percentages listed throughout are for general estimating purposes only and will not necessarily agree with actual figures submitted by the contractors.

Base Year: January 1, 2012 - December 31, 2012

Direct Labor (DL)

<u>Labor Category</u>	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>
Senior Software Engineer	1880	45.00*	84,600.00
Senior Software Engineer	1410	45.00*	63,450.00
Junior Software Engineer	1880	35.00*	65,800.00
Program Manager	470	65.00*	30,550.00
Total DL * Unburdened			\$244,400.00
Fringe Benefits (FB)			(35%)
			\$244,400.00
			<u>X .35</u>
Total FB			\$85,540.00
Total DL and FB			\$329,940.00
Overhead (OH)			(20%)
			\$329,940.00
			<u>X .20</u>
Total OH			\$65,988.00

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

Total DL, FB, and OH	\$395,928.00
Other Direct Costs (ODCs)	
Three (3) Dell desktop computers with printers @ \$2,900.00/each	\$8,700.00
Three (3) software licenses	\$3,600.00
MEDSEARCH SOFTWARE @ \$1,200.00/each	
Three Memberships - National Society of DoD Software Developers @ 1,000.00/each	\$3,000.00
Travel*	\$7,800.00
Total ODCs	\$23,100.00
<i>*Travel Note: Three projected trips (May, July, and November 2007) Monday - Friday, for full time Senior Software Engineer from Frederick, MD to Chicago, IL and return. Airfare; lodging, car rental, and per diem estimated at \$2,600/trip.</i>	
Total DL, FB, OH and ODCs	\$419,028.00
G&A (15%)	
	\$419,028.00
	<u>X .15</u>
Total G&A	\$62,854.20
Total DL, FB, OH, ODCs, and G&A	\$481,882.20
Profit (10%) (FFP)	

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

	\$481,882.20
	<u> x .10</u>
Total Profit	\$48,188.22
Total DL, FB, OH, ODCs, G&A, and Profit	\$530,070.42

Escalation

2.5% per year for option year 1 and option year 2

Base Year (January 1, 2012 - December 31, 2012)	\$530,070.42
Option Year 1 (January 1, 2013 - December 31, 2013)	\$543,322.18
Option Year 2 (January 1, 2014 - December 31, 2014)	\$556,905.24
Total All Years	\$1,630,297.84

In accordance with AFARs 5107.9002 Policy, I hereby certify that the Government developed the IGCE independently prior to seeking any formal proposals from the contractor.

Preparer (Print): _____ Signature: _____

Organization: _____ Title: _____

Date: _____ Telephone: _____

Immediate Supervisor of Preparer:
(Print): _____ Signature: _____

Organization: _____ Title: _____

Date: _____ Telephone: _____

**** Label each page of the IGCE with the below Footer ****

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MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

Attachment B – **SAMPLE** Basis of Estimate

Basis of Estimate - Assumptions when Preparing your IGCE - Provide with the IGCE

Preparation Instructions: Provide sufficient narrative and analytical detail, to include reference material, to support preparation of the IGCE.

Assumptions Used: Identify any and all assumptions and methodologies used in cost computations.

1. _____

2. _____

3. _____

Basis for Cost Estimates: Specify the item, the basis for the factor used and the source of the data used in preparing the IGCE.

	Item	Basis	Sources
1.			
2.			
Etc.			

Other Project Information: Identify any other information which may be necessary or helpful in the proper evaluation of the cost estimates; i.e., Statements of Objectives (SOO), etc.

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

Attachment C – **SAMPLE** IGE / Price Estimate for Commercial Products and Simple Services

Note: 1 Used to document your research performed to determine the market value of an item for commercial supply or services. Furnish both the IGE and a narrative describing the research conducted and conclusions along with your funded procurement requisition to the contracting office.

Note 2: The IGE is often used to establish initial funding limits. Therefore, in the professional opinion/judgment of the subject matter experts in the requiring activity – the IGE should represent reasonable “predictors” for estimating the price of the current requirement.

A. Estimate

<u>Period</u>	<u>Description of Product/ Service</u>	<u>Comparison Price/ Market Research</u>	<u>Price w/adjustments</u>
Base	_____	_____	_____
Option 1	_____	_____	_____
Option 2	_____	_____	_____
TOTAL \$			_____

B. Description of the Basis for Estimate and Adjustments. *[Example below is illustrative only and not intended to be all-encompassing or limiting.]*

This estimate was developed using similar procurements, adjusted for complexity, quantity, and inflation. The xxx contract (or task order), issued by Government Agency with ABC company required (specify type(s) of) support services or products for the Government Agency that are similar to the subject requirement. The contract (task order) was performed during the period (date – e.g., mm/yyyy through mm/yyyy), with a performance midpoint of (date) and a total contract cost/price of \$##.##Million. The subject services or products are projected to require similar categories and mixtures of professional and administrative support services as those required under the xxx.

However, the Government Agency requirement was significantly less involved than the subject requirement. By comparison, the subject requirement for MRMC will require type services that encompass different quantities of pertinent predictors. Therefore, the

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

subject requirements estimate was derived by applying a total scope complexity factor of 5, but reducing the duration to six months due to the anticipated award date. Therefore, an estimate of the subject requirement was derived:

Base effort: $###.##M \times 5(\text{complexity}) \times 0.5 (\text{duration}) = ####.##M$

The first option is a full year's performance of the same scope of work, so the estimate for Option 1 is based on the foregoing complexity factor applied to the base contract value as above, with no "duration" adjustment, but with an escalation factor of 1.03 based on (explain basis for escalation factor), applied as follows:

Option 1: $####.##M \times 5(\text{complexity}) \times 1.03^* \text{ escalation} = \#,###.##M$

Option period 2 of the requirement is very similar in scope to the work performed by the Contractor Company under Contract XXXXX. The estimate, therefore, includes the XXXXX price, adjusted annually for inflation only, from the midpoint of performance until the middle of FY 20XX. The inflation factor of 1.061 based on based on (explain basis for escalation factor), applied as follows:

Option 2: $####.##M \times 1.061^* \text{ escalation} = ##.##M$

C. Preparer Signature and Contact Information

In accordance with AFARs 5107.9002 Policy, I hereby certify that the Government developed the IGE independently prior to seeking any formal proposals from the contractor.

Preparer (Print): _____ Signature: _____

Organization: _____ Title: _____

Date: _____ Telephone: _____

Immediate Supervisor of Preparer:
(Print): _____ Signature: _____

Organization: _____ Title: _____

Date: _____ Telephone: _____

**** Label each page of the IGE with the below Footer ****

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MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

Attachment D – **SAMPLE** IGE/Price Estimate Worksheet for Commercial Products and Simple Services

Note: 1 Used to document your research performed to determine the market value of an item for commercial supply or services. Furnish both the IGE and a narrative describing the research conducted and conclusions along with your funded procurement requisition to the contracting office.

Note 2: The IGE is often used to establish initial funding limits. Therefore, in the professional opinion/judgment of the subject matter experts in the requiring activity – the IGE should represent reasonable “predictors” for estimating the price of the current requirement.

The following are general guidelines that apply to most situations.

(1) Describe the requirement.

(2) Describe any historical cost information from previous purchases?

(3) What does the marketplace indicate the prices is?

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

(4) Has contracting procured the item before?

(5) Can pricing for the item be obtain from or compared to GSA Schedule Pricing for the same or similar item?

(6) Is there a commercial published price list or catalog for the items?

MCMR-AAP-A

SUBJECT: Procurement Advisory Notice (PAN) 16-06 Preparation and Use of the Independent Government Cost Estimate

7. PROPONENT. Carla S. Diamond, Chief, Procurement Policy Branch, US Army Medical Research Acquisition Activity.



BRIAN E. MARTIN
Principal Assistant Responsible
for Contracting

signed copy on file