

Analyzing Direct Labor Costs

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Module Introduction

Welcome to Analyzing Direct Labor Costs!

You might be wondering, "How will the information in this module help me in my job as a contract specialist?"

As a contract specialist, it is your job to determine price reasonableness. By analyzing direct labor costs, you gain the information necessary to evaluate the appropriateness of proposed labor estimates.

To complete a supply contract, the contractor will likely require engineers, manufacturing personnel, and a wide range of support personnel.

In this module, you will learn to differentiate between labor classifications. You will also learn how to analyze direct labor rates, hours, and mix as they relate to direct labor cost.

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Objectives

At the end of this module, you will be able to:

- Identify labor classifications
- Identify proposed direct labor mix
- Relate proposed labor hours to work requirements to determine reasonableness of direct labor costs
- Examine proposed labor rates to determine a fair and reasonable pre-negotiation position

Sound good? All right, let's get started!

Select Next for a high-level overview of the content that will be presented in this module.



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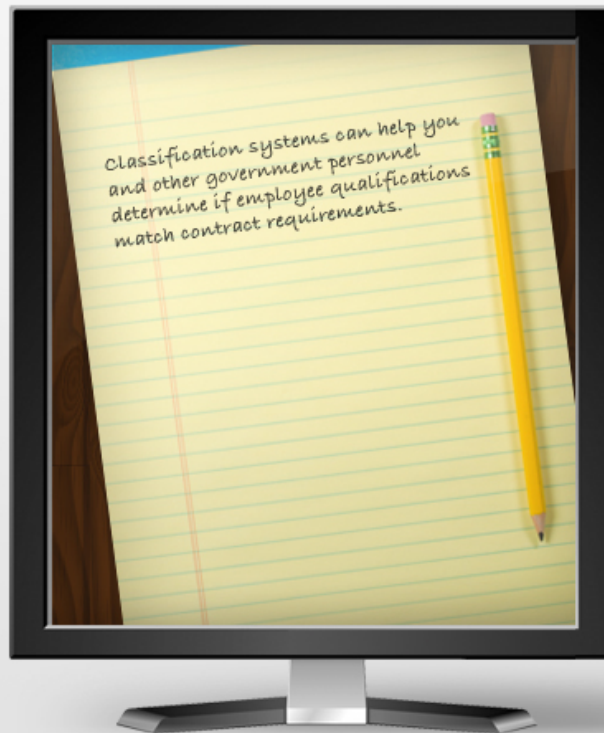
Overview - Labor Classifications

When you are analyzing direct labor costs, it is important for you to be able to differentiate between labor classifications. That information can prove invaluable as you and other government personnel evaluate the appropriateness of proposed labor estimates.

Each offeror should have a position classification system which serves as a guide for personnel selection and assignment. This system should provide both contractor and government members of the acquisition team with information on relevant position descriptions, position classes, and the position classification plan.



[Select here to learn more about labor classifications.](#)



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Overview - Labor Classifications

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[Select here to learn more about labor classifications.](#)

User Instructions: Select Next to continue.

Example - Windows Internet Explorer

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Example

Here is an example. When auditors perform formal contractor employee compensation reviews, they compare the firm's personnel classification data and related compensation with the compensation paid for similar skills by other firms in the local area.

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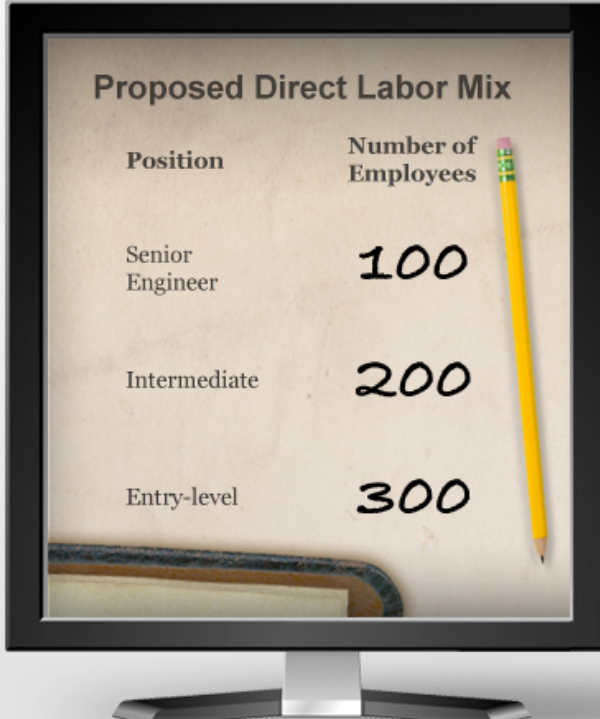
Overview - Direct Labor Mix

One of the main components that you will analyze to determine the reasonableness of proposed direct labor costs is the **direct labor mix**.

Direct labor mix means the number of employees in each labor classification working specifically on manufacturing a product or performing a service.

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Position	Number of Employees
Senior Engineer	100
Intermediate	200
Entry-level	300

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Overview - Direct Labor Hours

The second main component you will analyze when determining reasonableness of proposed direct labor costs is **direct labor hours**.

Direct labor hours refers to the proposed amount of hours required to produce a good or complete a service.



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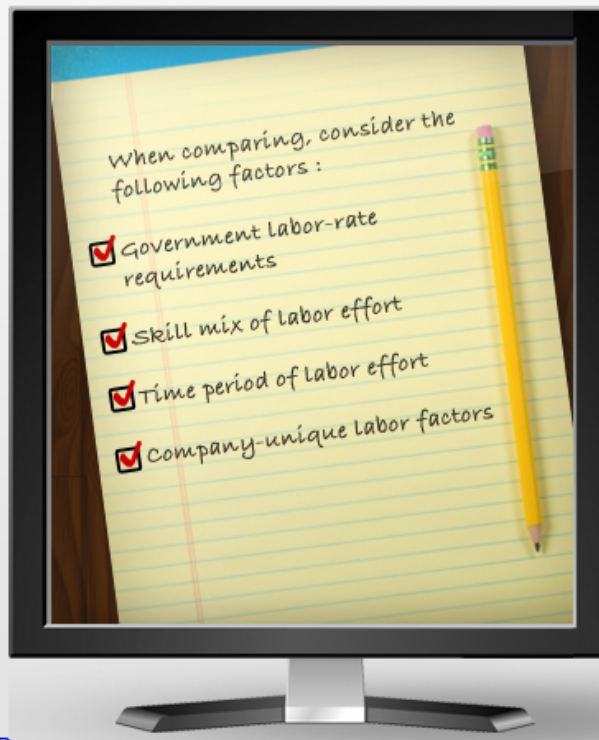
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Overview - Direct Labor Rates

The third main component to analyze when determining the reasonableness of direct labor cost is **direct labor rates**.

Direct labor rates refers to the proposed hourly rate charged by the offeror for services rendered or products produced.

You will compare these rates to those charged by firms in the industry.



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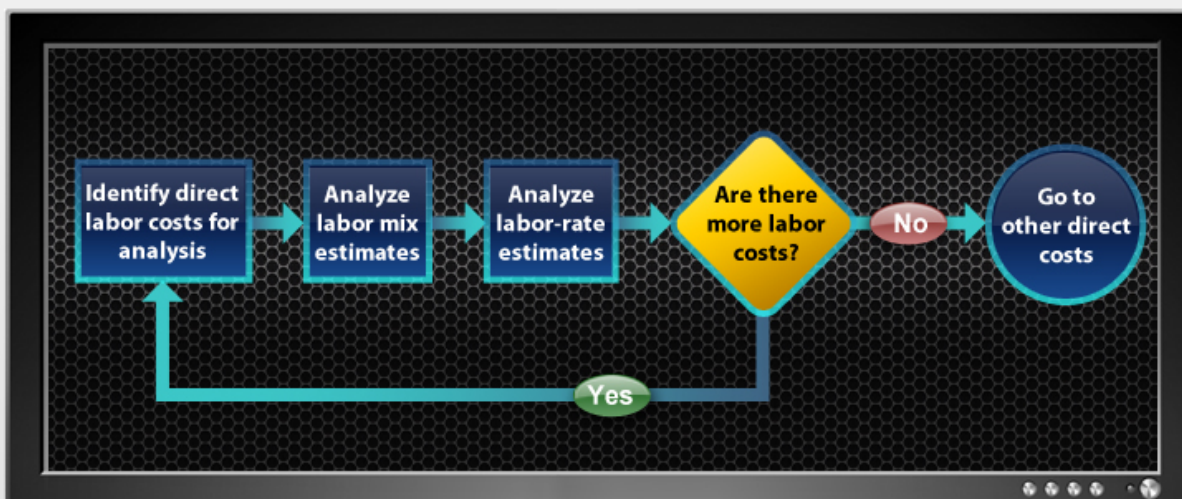
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Overview - Direct Labor Costs

Direct labor costs are calculated using direct labor mix, hours, and rates. Once you have analyzed each for reasonableness, you will need to check direct labor cost calculations for accuracy.

The flowchart below depicts the key events completed as part of a typical direct labor cost analysis.



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Module Resources

Review the graphic to the right to see what specific resources are used as references for the content in this module.

It is strongly recommended that you review these resources before proceeding with the module. Doing so will put you "ahead of the game" and will help you to answer the challenge questions to come!

Select the Resources tab for links to these and other references.

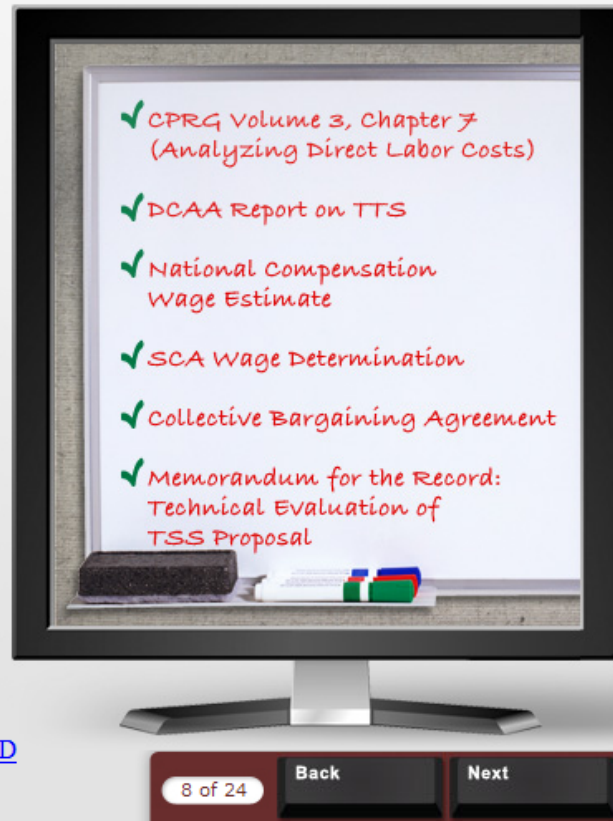
Note: The Department of Labor now has an on-line wage determinations page which includes a WDOL.gov User's Guide. This includes a general overview of wage determinations and how to use the guide, as well as separate sections on the Service Contract Act and the Davis Bacon Act.

You can access it at

<http://www.wdol.gov/usrguide/index.aspx>.

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Simulation Overview

In this module, you are going to answer a series of Challenge Questions about analyzing direct labor. Do not worry if you miss a question - you will be directed to pertinent content and then given a chance to answer the question again.

Even if you get a question right the first time, it is strongly recommended that you elect to review the pertinent content by selecting the Review button. This review will help you answer the practice test questions at the end of the module.

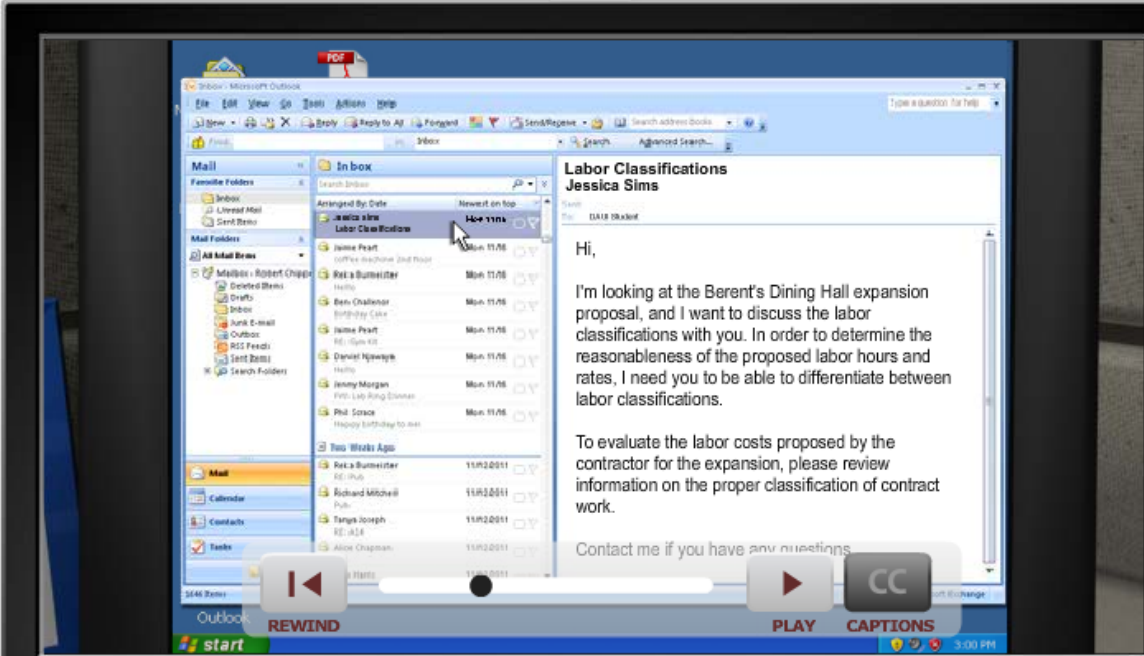
Remember to use the Resources and Glossary tabs at any time during the simulation to access helpful information.

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Labor Classifications
Jessica Sims

Hi,

I'm looking at the Berent's Dining Hall expansion proposal, and I want to discuss the labor classifications with you. In order to determine the reasonableness of the proposed labor hours and rates, I need you to be able to differentiate between labor classifications.

To evaluate the labor costs proposed by the contractor for the expansion, please review information on the proper classification of contract work.

Contact me if you have any questions.

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The video player displays a screenshot of a Microsoft Outlook inbox. The inbox is titled 'Inbox' and shows a list of emails. The email 'Labor Classifications' from Jessica Sims is selected. The email content is visible on the right side of the player. The video player interface includes a progress bar, a play button, and a 'CAPTIONS' button.

Labor Classifications
Jessica Sims

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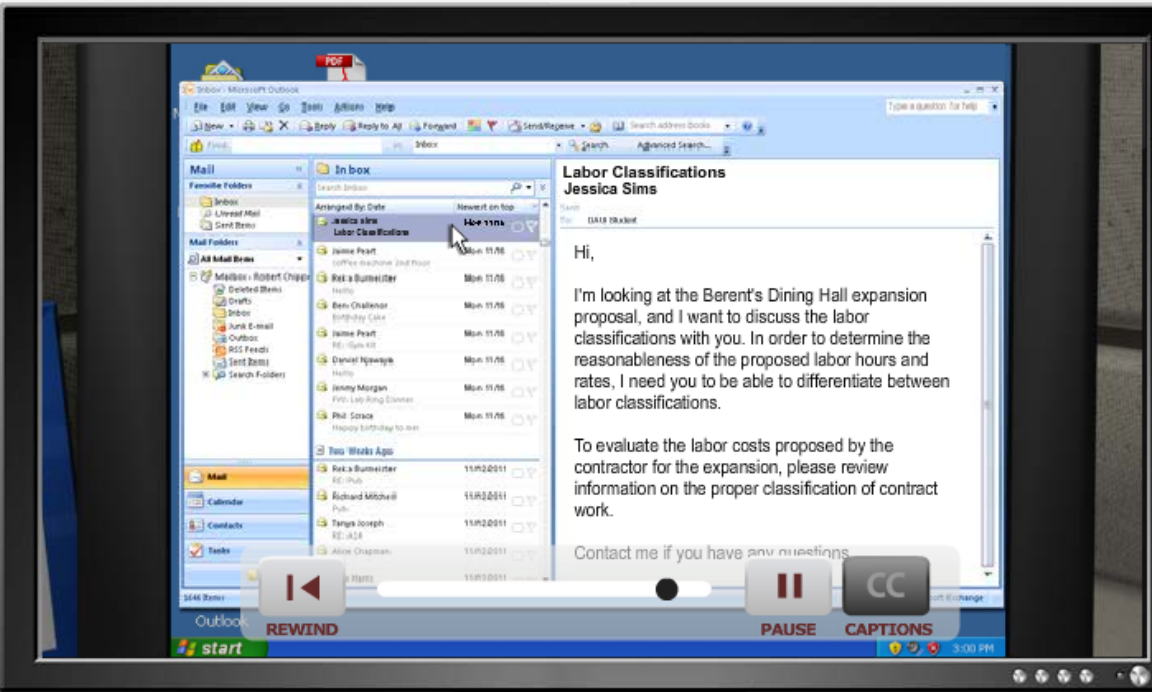
In order to determine the reasonableness of the proposed labor hours and rates, I need you to be able to differentiate between labor classifications.

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Challenge Question #1

Which one of the following job descriptions can most accurately be categorized as manufacturing direct labor?

- ☐ A. Transporting the product from the facility to the requesting agency's site
- ☐ B. Measuring and cutting material used in the outer casing
- ☐ C. Making sure that the required characteristics and specifications are incorporated into the product
- ☐ D. Incorporating techniques during the planning stages to ensure the longevity of the product

[Check Answer](#)

User Instructions: Select the correct answer.

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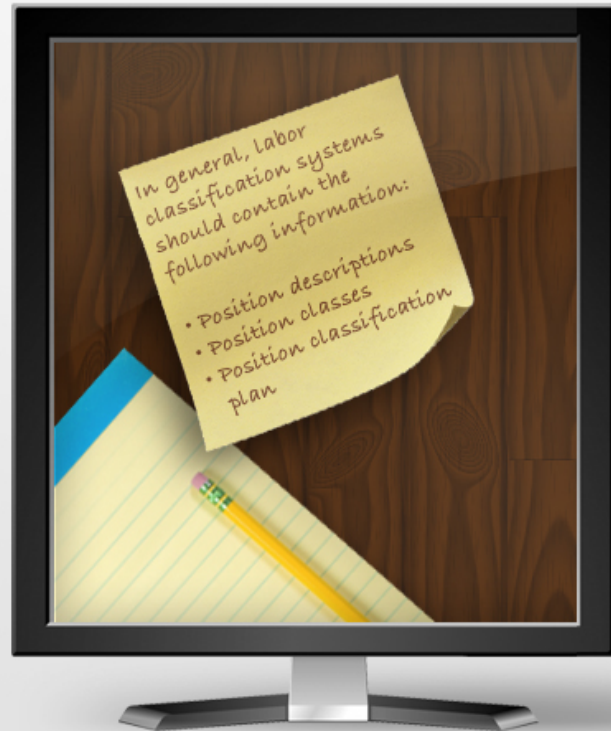
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Labor Classification Systems (LCS)

When analyzing direct labor costs, it is important for you to be able to differentiate between labor classifications.

Each offeror should have a position classification system which serves as a guide for personnel selection and assignment. This system should provide both contractor and government members of the acquisition team with information on relevant position descriptions, position classes, and the position classification plan.

That information can prove invaluable as you and other government personnel evaluate the appropriateness of proposed labor estimates. In other words, this system can help you determine if employee qualifications match contract requirements.

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LCS - Position Descriptions

A position description is the documentation of the types of work (i.e., duties and responsibilities) assigned to an employee.

Most firms should be able to produce a position description for each position. That description should identify specific position:

- Duties
- Responsibilities
- Qualification requirements
 - Experience
 - Skills
 - Knowledge
 - Educational needs to work in the position

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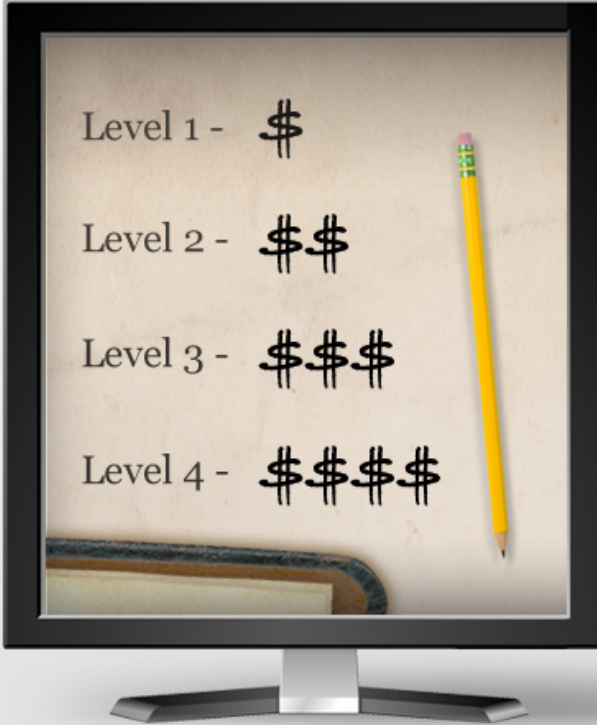
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LCS - Position Classes

A position class is a grouping of all positions that share the same title and pay level. For example, "Senior Electrical Engineer - Pay Level IV" is the title assigned to a class of positions.

Normally, positions are assigned the same title and pay level only if the workers in the positions perform duties that:

- Are comparable in kind or subject matter
- Are at the same levels of difficulty and responsibility
- Require the same basic qualifications



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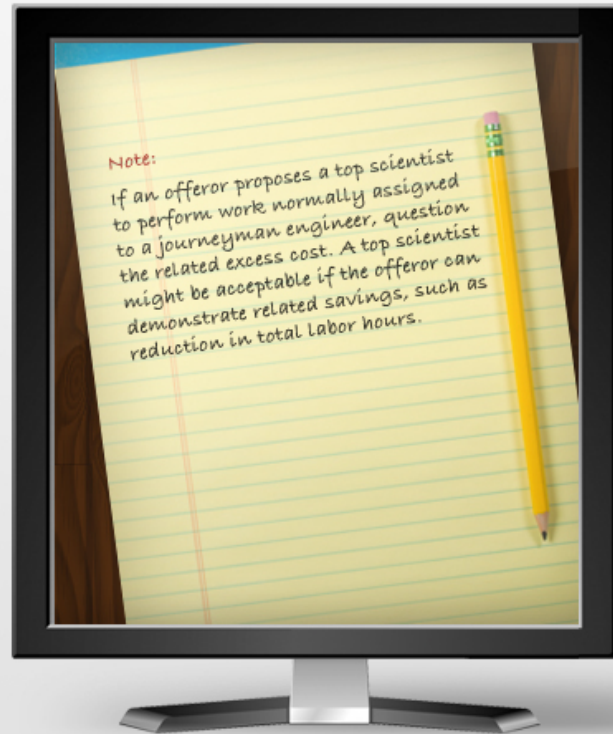
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LCS - Position Classification Plans

Position classification plans (sometimes called job evaluation plans) identify the classes of labor employed by the firm and provide guidelines for determining the title and pay level of each position in the firm.

Guidelines are generally in the form of job factors, degree requirements, skill qualification requirements, and conversion tables (such as the possible trade-offs between education and experience).

The position classes and labor rates identified in the proposal should be consistent with the offeror's classification plan. In other words, the offeror should not propose a top scientist to perform the type of work normally assigned to a journeyman engineer.

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Common Direct Labor Categories

The two most common and largest types of direct labor categories in manufacturing contracts are:

- Engineering labor
- Manufacturing labor

Each offeror will likely have different terminology and different ways of categorizing its labor force, but you will see these categories frequently.

A service contractor's primary purpose is to perform an identifiable task rather than to furnish an end-item of supply. For this reason, the labor categories in service contracts are much more diverse.



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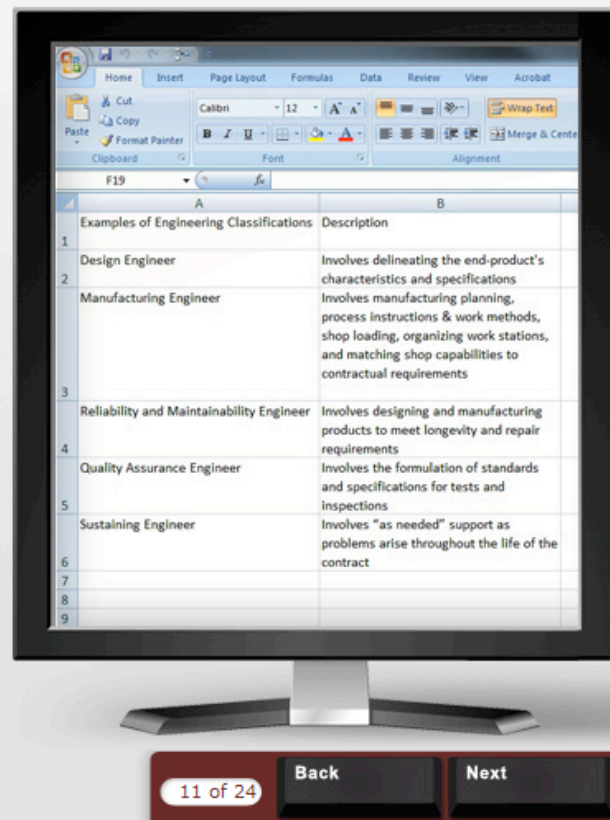
Engineering Labor

Engineering involves activities associated with product research, product design, and development of manufacturing methods and procedures.

Most engineering activity is charged as a direct labor cost. However, the efforts of supervisors and many engineering support personnel may be considered indirect labor.

Assure that the offeror is consistent in charging these costs as direct or indirect. If you have any question about proper cost treatment, contact the cognizant government auditor for advice and assistance.


Select the table to the right to view information about descriptions of some of the most common engineering labor classifications.



Examples of Engineering Classifications	Description
1 Design Engineer	Involves delineating the end-product's characteristics and specifications
2 Manufacturing Engineer	Involves manufacturing planning, process instructions & work methods, shop loading, organizing work stations, and matching shop capabilities to contractual requirements
3 Reliability and Maintainability Engineer	Involves designing and manufacturing products to meet longevity and repair requirements
4 Quality Assurance Engineer	Involves the formulation of standards and specifications for tests and inspections
5 Sustaining Engineer	Involves "as needed" support as problems arise throughout the life of the contract
6	
7	
8	
9	

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 http://performtech.com/dau_con/clc056/09/images/09_01_0110_60_popTable.htm

Examples of Engineering Classifications	Description
Design Engineer	Involves delineating the end-product's characteristics and specifications
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Quality Assurance Engineer	Involves the formulation of standards and specifications for tests and inspections
Sustaining Engineer	Involves "as needed" support as problems arise throughout the life of the contract

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Manufacturing Labor

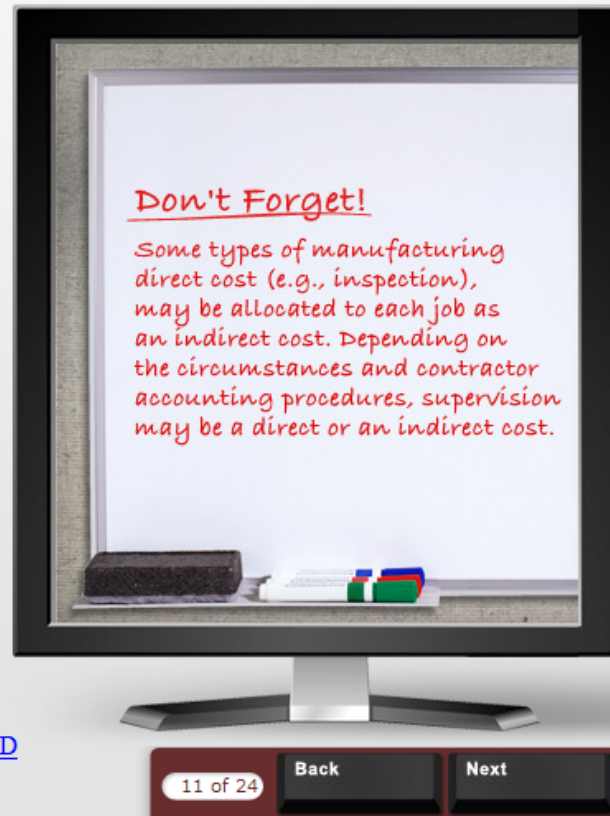
Manufacturing labor is the effort required to actually produce an item. Most manufacturing labor cost is a "hands-on" direct cost.

Assure that the offeror is consistent in charging these costs as direct or indirect under similar circumstances. If you have a question about proper cost treatment, contact the cognizant government auditor for assistance.

The three most common types of manufacturing labor are:

- **Fabrication labor** - Involves the fashioning of parts from raw or purchased materials
- **Assembly labor** - Involves the effort to combine parts into subassemblies and assemblies
- **Quality control labor** - Involves the act of testing or inspecting the product during the manufacturing process and prior to final acceptance.

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Services Labor

A service contract directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end-item of supply.

The classes of labor effort required for contract performance will vary widely based on the tasks that must be performed to complete the contract.

The service contract solicitation may define labor categories which the offeror must use in proposal preparation and contract performance.

To comply with these solicitation-defined labor categories, the offeror may need to use a blend of personnel from more than one of the firm's position classes.

In such cases, the offeror should identify the labor classifications that were blended to meet solicitation requirements. The blended labor-rate should correspond to the blend of skills required.

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REWIND PLAY CAPTIONS

Hi, this is Jessica.

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Now that you know how to classify labor, we should look at the Berent's Dining Hall expansion proposal's labor mix to see if it is reasonable and accurate.

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Analyze the labor mix and let me know if the offeror's calculations are correct. Talk to you soon. Bye.

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Challenge Question #2

The Berent's Dining Hall expansion proposal's labor mix consists of one full time equivalent (FTE) Civil Engineer and one FTE Civil Engineering Technician. Is this a reasonable labor mix?

- ☐ A. Yes. There should never be more than one Civil Engineer on a project this small.
- ☐ B. No. There are not enough Civil Engineers. Engineering Technicians can only assist Civil Engineers with insignificant tasks.
- ☐ C. Yes. A technical evaluation provided by Lorena Helmsly concurs with the labor hour estimates in the proposal.
- ☐ D. No. There should always be more entry-level engineers on a task than Senior engineers.

Check Answer



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User Instructions: Select the correct answer.

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Evaluating Labor Mix

Part of your task in evaluating proposed labor rates is to evaluate the labor mix, utilizing technical support.

When evaluating proposed labor mix, consider the following questions:

1. [Is the proposed skill mix reasonable for the work required?](#)
2. [Is the proposed skill mix reasonable based on the mix used in performing similar contracts?](#)

Here is an example. The labor rate for a top scientist is usually more than the labor rate for a technician. You would not accept a cost estimate that proposes only top scientists for routine equipment repair. At the same time, you would not accept a cost estimate that proposes only technicians for a complex research effort to advance the state of the art in nuclear physics.

Review the Berent's Dining Hall Proposal (Direct Labor tab) under the Resources tab.

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Review the Berent's Dining Hall Proposal (Direct Labor tab) under the Resources tab.

User Instructions: Select Next to continue.

Is the proposed skill mix reasonable for the work required?

Most contracts require a mix of skills. For example, top scientists would obviously play a key role in a contract to advance the state of the art nuclear physics. Technicians, however, would likely be more efficient at performing many tasks. Top scientists would cost more per hour and likely require more hours. Technicians may be able to do many of the tasks traditionally assigned to top scientists, but they may more time to complete them.

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User Instructions: Select Next to continue.

Top ScientistsTechnicians

Is the proposed skill mix reasonable based on t...
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Is the proposed skill mix reasonable based on the mix used in performing similar contracts?

Comparisons are particularly important for follow-on contracts for similar products or services. Normally, higher level skills should not be employed on a follow-on contract unless there were identified labor problems or more complex work is required. Lower level skills may be appropriate as complex problems are solved and contract effort becomes more routine.

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Weighted Average Labor Rates

When pricing proposals, offerors usually find it impractical, if not impossible, to identify the exact labor rate for each individual projected to work on the contract. They usually do not know the labor mix.

When evaluating labor mixes, you will need to ask specific questions. **Select each of the photos below to see these questions and their corresponding answers.**



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Weighted Average Labor Rates

When pricing proposals, offerors usually find the weighted-average labor rate for each individual projected to work on the project.

When evaluating labor mixes, you will need to see these questions and their corresponding answers.



Did the offeror use a weighted-average labor rate?

The offeror may estimate labor rates by position class (e.g., senior engineer or principle analyst) or by department. Either way, they will likely use some form of weighted-average labor rate. A weighted average rate takes into account the rate and the number of workers at that rate.

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Weighted Average Labor Rates

When pricing proposals, offerors usually find it i
for each individual projected to work on the co

When evaluating labor mixes, you will need to a
see these questions and their correspondin



If the offeror is CAS-covered, does the weighte...

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If the offeror is CAS-covered, does the weighted average meet CAS requirements?

CAS only permits a business unit to use average costs for accounting purposes when the offeror meets one of the following conditions:

1. When the functions performed are not materially different and employees involved are interchangeable with respect to functions performed, or
2. When the functions performed are materially different but the employees involved either all work in a single production unit yielding homogeneous outputs or perform their respective functions as an integral team.

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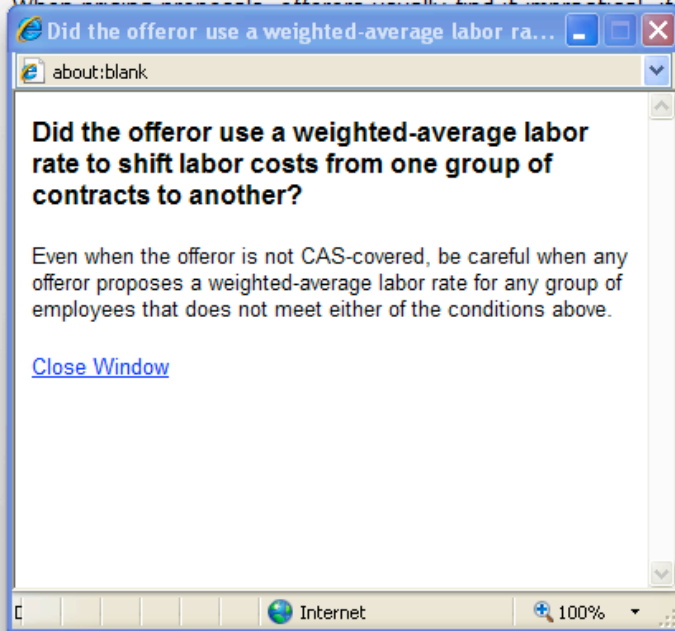
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Questions. **Select each of the photos below to**



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Weighted Average Labor Rates

When prices are different for each input, the weighted average labor rate must be used. To identify the exact labor rate, the weighted average labor rate must be calculated. Select each of the photos below to see these examples.

Did the offeror calculate the weighted-average labor rate correctly?

The most common mistake made when calculating weighted average labor rates is not weighting the average. A weighted average is an average in which each quantity to be averaged is assigned a weight. These weightings determine the relative importance of each quantity on the average. It differs from a simple average because in a simple average all components hold the same weight.

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Technical Evaluation

In order to accurately judge the reasonableness of direct labor mix, hours, and rates, you will often need to have the proposal evaluated by an expert.

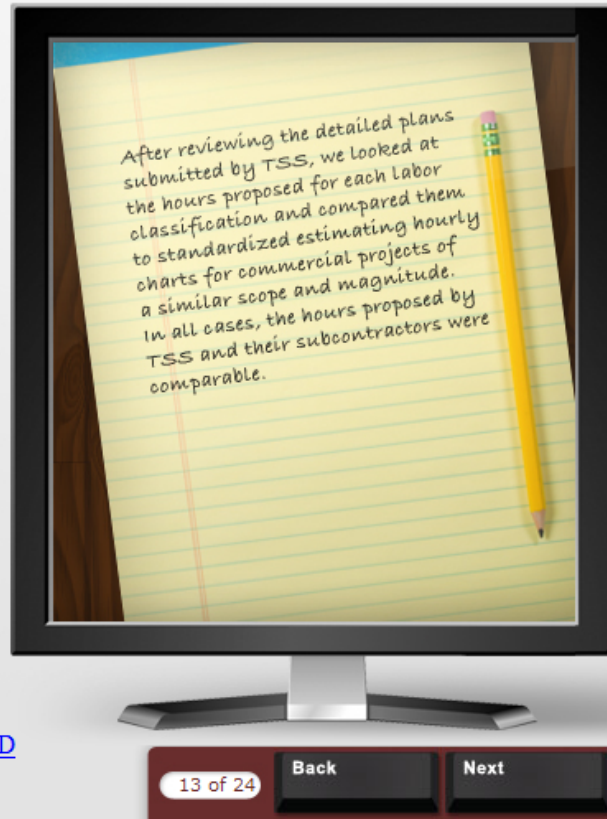
Review the technical evaluation that was received for the BBOMS proposal. You can find the proposal and the technical evaluation under the Resources tab.

The report was prepared by Lorena Helmsly, the Facilities Engineering Chief at Berents Base. She also worked with a team of representatives from Architecture and Engineering Command. This group is definitely qualified to give us an expert opinion.

Let's look specifically at the paragraph about their findings on labor. Review this information on the graphic to the right.


FYI: To learn more about technical proposal evaluation, please see CLC 063, Technical Proposal Evaluation.

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Hi! Just wanted to stop by and say thanks for determining the reasonableness of the labor mix for the BBOMS. Now we need to find out if the proposed labor hours are reasonable.

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Challenge Question #3

The BBOMS proposal uses the comparison method instead of the round-table method to estimate hours. Which of these situations warrants the use of a round-table estimate?

- ☐ A. The contract is for a unique item, and with no historical data available such as detailed drawings or bill of materials.
- ☐ B. A contract is for a service that has been used previously, and the estimate must be based on historical experience.
- ☐ C. A contract is for a service that has been provided previously, and offerors need to submit data detailing the time it takes for a worker to complete tasks.
- ☐ D. A contract is for \$900,000 and there have been several similar contracts performed previously. Usually, offerors will use comparison estimates for this work.

[Check Answer](#)

User Instructions: Select the correct answer.

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Analyzing Labor-Hour Estimates

Offerors estimate labor hours using one of three different methods:

- Round-table estimates
- Comparison estimates
- Labor standards

The points that you consider in your analysis will not be the same for every estimate.

However, there are general steps that you should follow as you conduct your analysis of direct labor-hour estimates:

1. Give special attention to any direct labor-hour concerns identified during your preliminary review of direct labor cost estimates.
2. Determine whether the estimating method is appropriate for the estimating situation.
3. Determine whether the estimating method was properly applied.

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Round-Table Estimates

Experts develop round-table labor-hour estimates based on their experience and judgment without using detailed drawings or a bill of materials, and with limited information on specifications.

Round-table estimating should only be used in situations where detailed drawings, bills of material, and firm specifications are not available.

These estimates are most commonly used for research and development and other contracts that will require the offeror to perform tasks that are not well defined at the time the estimate is prepared.

For a low-dollar contract, a round-table estimate may be acceptable. The cost risk involved may not warrant the collection of data required for use of another estimating method.

When analyzing round-table estimates, ask:

- Is sufficient data available for use of a more accurate cost estimating method?*
- Does the offeror commonly use round-table estimates in similar estimating situations?*
- Does the cost involved warrant a more detailed estimate?*

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Questioning Round-Table Estimates

When analyzing round-table estimates, you will want to ask some specific questions to determine if the round-table estimate was properly developed and applied.

Select each of the photos below to see these questions and their corresponding answers.



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Questioning Round-Table Estimates

When analyzing round-table estimates, the estimator must determine if the round-table estimate was prepared by someone with the appropriate experience.

Select each of the photos of the estimator's experience appropriate for developing a round-table estimate in this situation.



Is the estimator's experience appropriate for developing a round-table estimate in this situation?

The offeror may assign a single estimator or a group of estimators to develop the estimate. The estimators will define the effort required in general terms and use that definition to estimate the number of people and the time required to perform the task.

Evaluate the estimators' experience with similar work. Anyone can guess about future costs. Personnel preparing round-table estimates should have experience with similar work and similar situations.

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User Instructions: Select Next to continue.

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Questioning Round-Table Estimates

When analyzing round-table estimates, a round-table estimate was properly developed.

Select each of the photos below to answer the question.



Has the estimator prepared accurate round-table estimates for other contracts?

Normally, you should be more concerned about estimates prepared by a person with little estimating experience or a record of inaccurate estimates.

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Questioning Round-Table Estimates

When analyzing round-table estimates, you will determine if a round-table estimate was properly developed and if it is reasonable.

Select each of the photos below to see the results of the round-table estimate.



If the estimate assumes a fixed level of effort over a period of time, is that assumption reasonable?

A fixed level of effort is commonly used to estimate the hours to perform repetitive tasks such as those found in project management and administration (e.g., a full-time project manager throughout the term of the contract). Evaluate the need for a fixed level of effort. For example, a large staff may be required for contract start-up but a much smaller staff may be able to do the work required during later contract performance.

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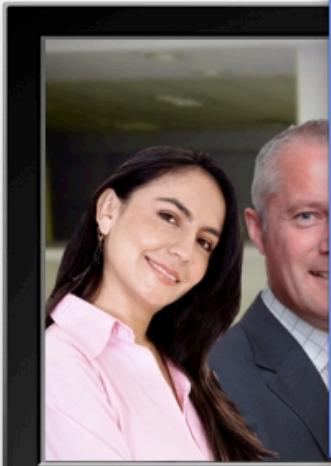
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Questioning Round-Table Estimates

When analyzing round-table estimates, determine if the round-table estimate was properly prepared.

Select each of the photos below that illustrate a round-table estimate that was properly prepared.



Does the estimate indicate that the required effort is more complex than it really is?

A more complex effort will require more time and higher skill levels than a less complex effort. Evaluating the task complexity is usually rather subjective. However, you might be able to develop a feel for the complexity of a task by relating it to the effort required to perform a similar task.

Do not be misled. For years, the government and its contractors have pushed forward the state-of-the-art in many fields. Today's knowledge is far broader than it was a few years ago. Because complexity is relative, the problems of today, relatively speaking, may be easier to solve than the less complex problems of the past.

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Questioning Round-Table Estimates

When you ask specific questions to determine if the round-table estimates are accurate, you should ask the following questions to determine if the estimates are accurate. Select the correct answer for each question and click Next to continue.

Does the estimate include an adequate description of the process and assumptions used to develop the estimate?

The estimate should include a clear description of the rationale used to develop the estimate. The rationale may be brief, but it must describe the process and assumptions used in preparing the estimate.

[Close Window](#)



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Questioning Round-Table Estimates

When analyzing round-table estimates, ask the following questions to determine if the estimates are adequate.

Select each of the following questions and select the appropriate answer.



Does the estimate include an adequate description of the task involved?

Round-table estimates may be summary level estimates of the time to complete an entire contract or lower level estimates of the time to complete a particular task. Require the offeror to document the definition of the task used in preparing the estimate.

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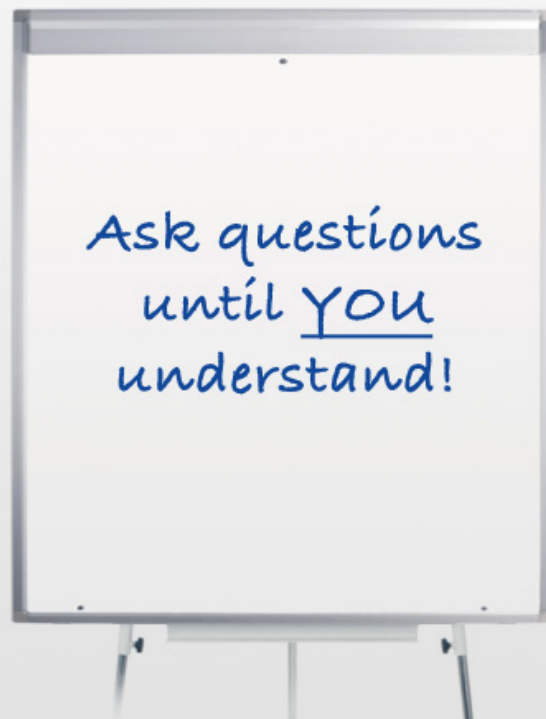
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Professional Judgement

It is not enough to ask for the advice of technical experts when you are trying to determine if a round-table estimate was properly developed and applied. You need to ask questions until YOU are sure you understand!

There are two benefits from asking questions:

1. You will learn about the labor specialties and the language involved in performing the work required
2. You will become more confident in your objective if you truly understand the contract effort required



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Challenge Question #4

All of the following are choices that are a factor when making labor rate comparisons EXCEPT?

- ☐ A. Government labor rate requirements
- ☐ B. Percentage of indirect costs associated with the labor effort
- ☐ C. The skill mix of the labor effort
- ☐ D. The time period of the labor effort

[Check Answer](#)

User Instructions: Select the correct answer.

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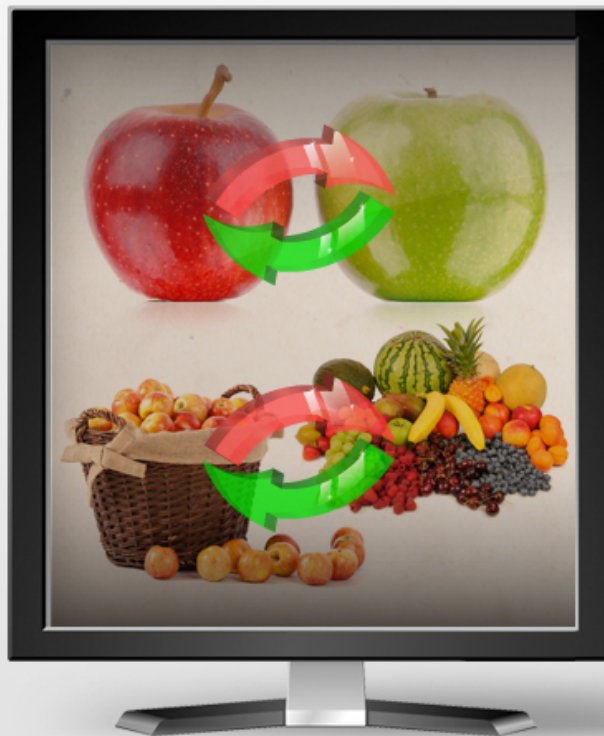
Analyzing Comparison Estimates

To develop a comparison labor-hour estimate, an estimator must first determine the cost to complete the same or similar work in the past. Then, the estimator must develop an estimate of future contract cost based on the historical experience.

Comparisons can be simple or involve the use of complex quantitative techniques. The two most common forms are:

- Direct comparison
- Cost estimating relationships

What do these two types of comparisons look like?



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Direct Comparisons

Direct comparisons analyze the hours it took to perform the same or similar effort in the past. This may mean a specific task or a level of effort.

The comparison may be used to estimate the labor cost for an entire contract or a segment of the contract.

Most direct comparison estimates will include an adjustment to consider differences in the acquisition situation. The rationale for these adjustments should be explained whether they are made using a quantitative or a subjective analysis.

Remember, even in a contract for a unique requirement, there may be tasks that are similar to the work performed in previous contracts.



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Cost Estimating Relationships

A cost estimating relationship (CER) is a technique used to extend comparisons.

The estimator can develop a CER that relates changes in cost to changes in an independent product variable or group of independent variables.

Once a CER is developed, you can use it to develop more accurate estimates of labor-hour requirements. That independent variable may be another contract cost or a product characteristic.

Basically, using a CER is like comparing a basket of apples to a mixed fruit basket; changing some of the elements of its composition acts as a variable.



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Determining Appropriateness of Comparison Estimates

To determine whether use of a comparison estimate is appropriate for the estimating situation, you might want to ask some specific questions.

Select each of the photos below to see these questions and their corresponding answers.



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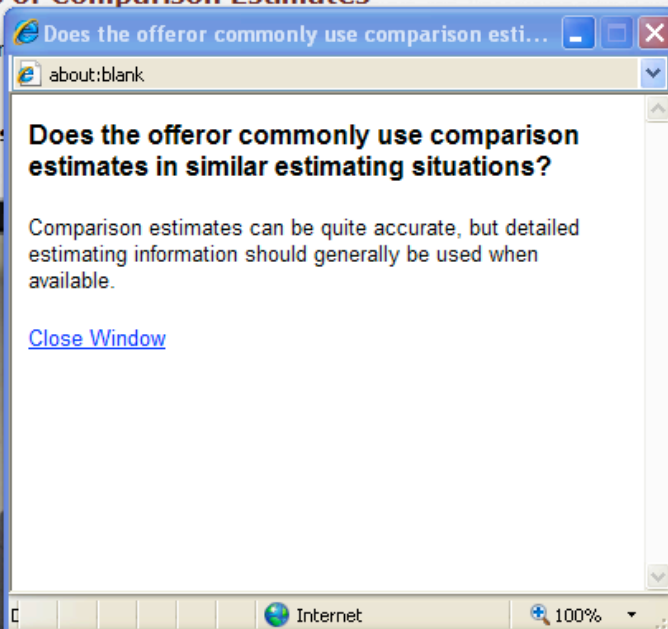
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Determining Appropriateness of Comparison Estimates

To determine whether use of a comparison estimate is appropriate, you might want to ask some specific questions.

Select each of the photos below to:



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Determining Appropriateness of Comparison Estimates

To determine whether use...
want to ask some specific

Select each of the photo

While they typically provide more insight into offeror procedures and requirement analysis, detailed estimates are time consuming and costly to develop. For a small dollar amount, a round-table or comparison estimate may be more desirable, because of the faster and less expensive analysis required.

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Does the cost involved warrant a more detailed estimate?

While they typically provide more insight into offeror procedures and requirement analysis, detailed estimates are time consuming and costly to develop. For a small dollar amount, a round-table or comparison estimate may be more desirable, because of the faster and less expensive analysis required.

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Determining Appropriateness of Comparison Estimates

To determine the appropriateness of comparison estimates, you might want to ask the offeror the following questions:

Select the correct answer for each question and click on the corresponding answers.

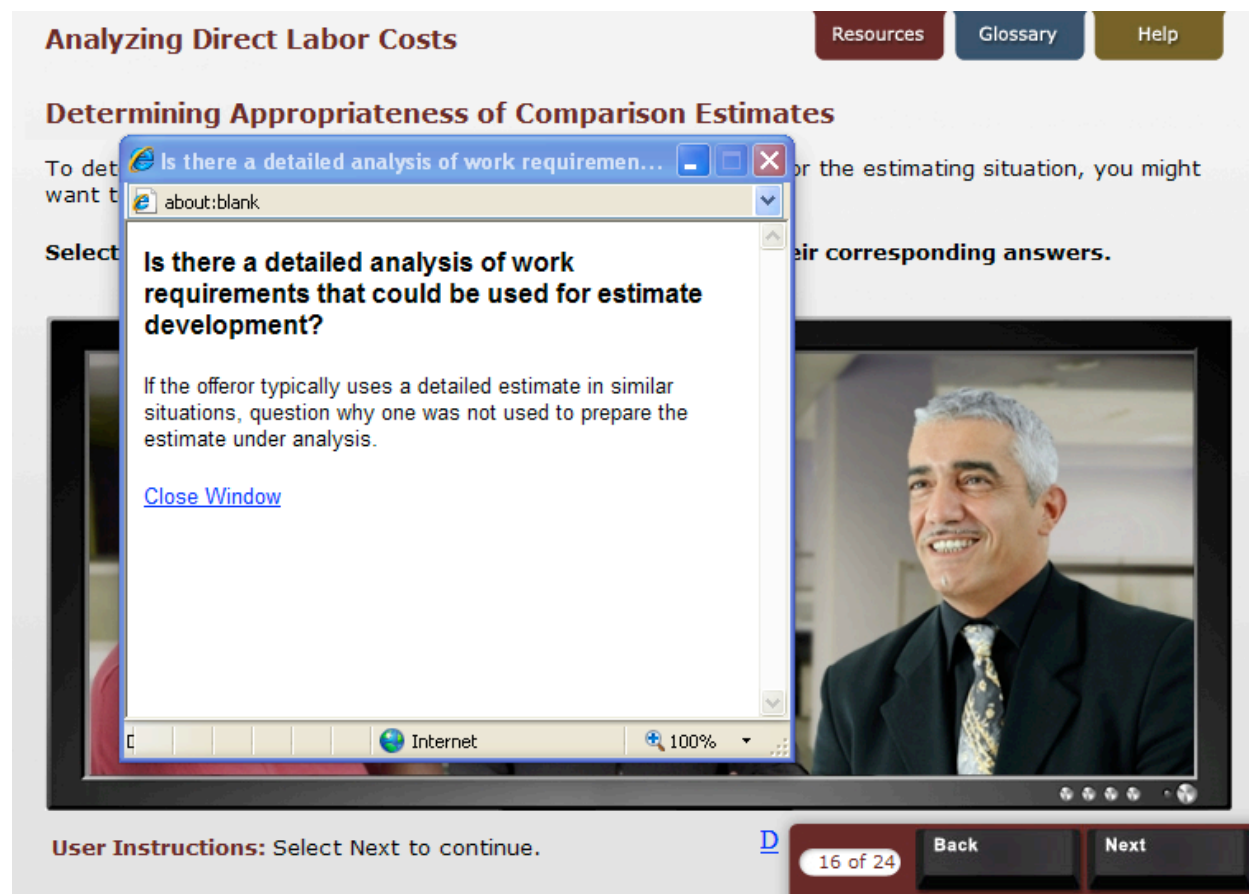
Is there a detailed analysis of work requirements that could be used for estimate development?

If the offeror typically uses a detailed estimate in similar situations, question why one was not used to prepare the estimate under analysis.

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Analyzing Development and Application of Comparison

When analyzing any labor estimate based on historical labor hours, review the acquisition situation that existed when the historical labor hours were incurred. To determine if the comparison estimate was properly developed and applied, you should ask specific questions. **Select each of the photos below to see these questions and their corresponding answers.**



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Analyzing Development and Application of Comparison

When analyzing any labor estimate that was properly developed and applied, you should see these questions and their corresponding answers.



Does the estimate include an adequate description of the process and assumptions used to develop the estimate?

The estimate should include a clear description of the rationale used to develop the estimate. The rationale may be brief, but it must describe the process and assumptions used in preparing the estimate.

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Analyzing Development and Application of Comparison

When analyzing any labor estimate based on data that has existed when the historical labor hours were developed and applied, you should ask specific **questions and their corresponding answers**.



Are the historical data complete and reliable? - ...

about:blank

Are the historical data complete and reliable?

The history should be accurate, complete, and current. Assume that portions of the relevant history are not missing, and that latest cost history is included.

The cognizant Government auditor can provide guidance on the acceptability of the offeror's cost accounting system. If the auditor feels that the offeror's system lacks appropriate checks and balances, is riddled with errors, or has resulted in mischarging, then the accuracy and reliability of the data are questionable.

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Analyzing Develop

When analyzing any labor-hour estimate that existed when the historic estimate was properly developed and applied, you should ask the following questions and their corresponding answers:

tion situation that estimate was properly developed and applied, you should ask the following questions and their corresponding answers:

If the labor-hour estimate was developed using a quantitative technique (e.g., a CER, moving average, improvement curve, or regression analysis), did the estimator consider the related issues and concerns?

Whenever an estimator uses a quantitative analysis technique in estimate development, the proposal and related data should consider the issues and concerns related to the use of that technique.

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Analyzing Development and Application of Comparison

When examining development and application of comparison, review the acquisition situation that line if the comparison estimate was properly at each of the photos below to see these

If the labor-hour estimate includes a subjective adjustment factor, is the factor reasonable?

The offeror may have provided subjective estimates for such factors as task complexity. When an offeror uses a subjective adjustment factor, the offeror should document both the need for such a factor and the rationale used to arrive at the adjustment included in the estimate.

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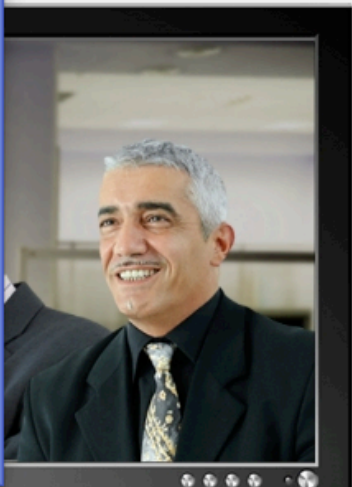

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Analyzing Development and Application of Comparison

When analyzing any labor estimate based on historical labor hours, review the acquisition situation that existed when the estimate was developed and the comparison estimate was properly developed and applied. See the photos below to see these questions and answers.



Is there any labor activity included in the historical costs that is also estimated separately?

If there is, the offeror has double estimated the cost. It must be eliminated in one estimate or the other. The time for rework and repair is an important example. Actual costs typically include the time for rework and repair. If such costs are included, do not accept any additional factors for rework and repair.

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Labor Standards

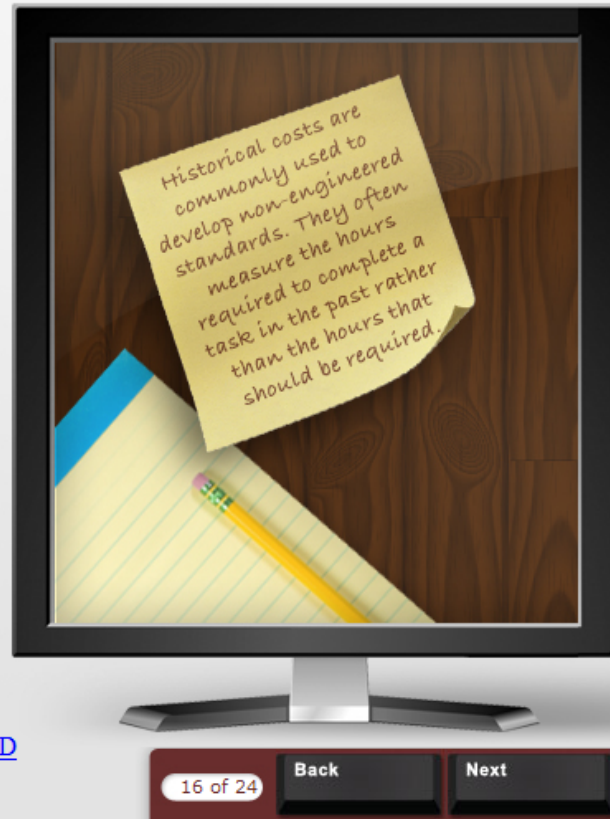
Labor standards are a measure of the time it should take for a qualified worker to perform a particular operation and can be used to estimate labor cost. They are commonly grouped into two types:

Engineered Standards are:

- Developed using recognized principles of industrial engineering and work measurement
- Define the time necessary to complete a defined amount of work of specified quality when following the prescribed method.
- Assume:
 - A qualified worker
 - Ordinary pace
 - Capable Supervision
 - Normal fatigue and delays

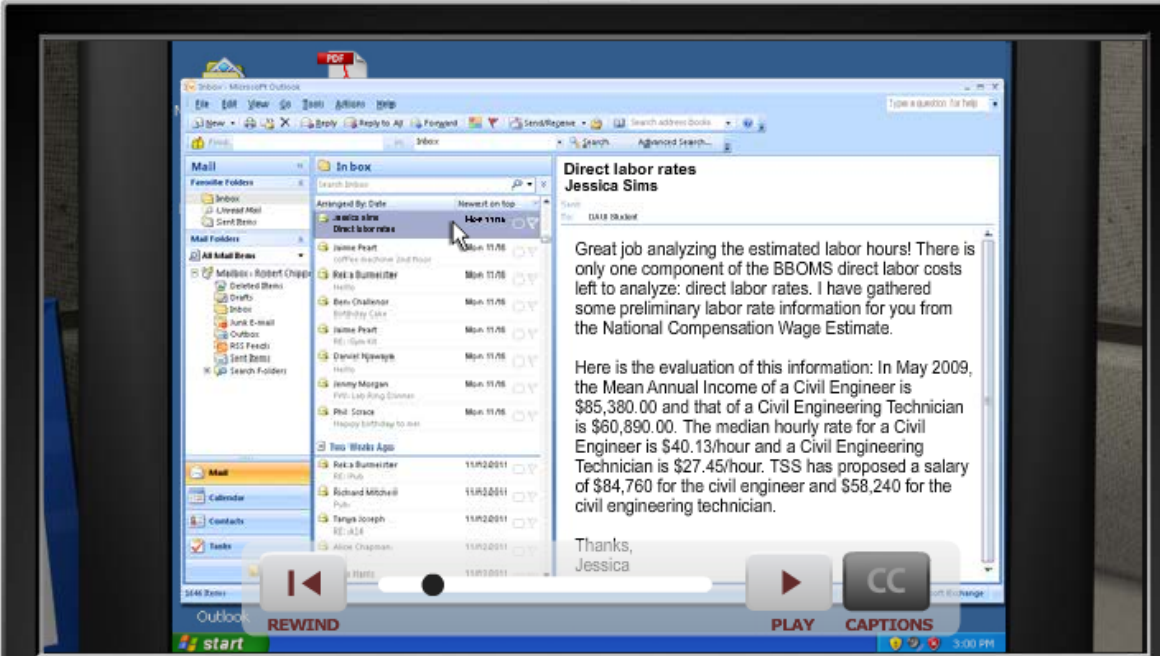
Non-engineered Standards are developed using the best information available without performing the detailed analysis required to develop an engineered standard.

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Great job analyzing the estimated labor hours! There is only one component of the BBOMS direct labor costs left to analyze: direct labor rates. I have gathered some preliminary labor rate information for you from the National Compensation Wage Estimate.

Here is the evaluation of this information: In May 2009, the Mean Annual Income of a Civil Engineer is \$85,380.00 and that of a Civil Engineering Technician is \$60,890.00. The median hourly rate for a Civil Engineer is \$40.13/hour and a Civil Engineering Technician is \$27.45/hour. TSS has proposed a salary of \$84,760 for the civil engineer and \$58,240 for the civil engineering technician.

Thanks,
Jessica

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The video player displays a screenshot of a Microsoft Outlook inbox. The inbox is titled 'In box' and contains several emails. The email titled 'Direct labor rates' from Jessica Sims is selected. The email content is as follows:

Direct labor rates
Jessica Sims

Great job analyzing the estimated labor hours! There is only one component of the BBOMS direct labor costs left to analyze: direct labor rates. I have gathered some preliminary labor rate information for you from the National Compensation Wage Estimate.

Here is the evaluation of this information: In May 2009, the Mean Annual Income of a Civil Engineer is \$85,380.00 and that of a Civil Engineering Technician is \$60,890.00. The median hourly rate for a Civil Engineer is \$40.13/hour and a Civil Engineering Technician is \$27.45/hour. TSS has proposed a salary of \$84,760 for the civil engineer and \$58,240 for the civil engineering technician.

Thanks,
Jessica

The video player interface includes a progress bar, a 'REWIND' button, a 'PLAY' button, and a 'CAPTIONS' button. The video is 3:00 PM long.

I've gathered some preliminary labor rate information for you from the National Compensation Wage Estimate. Here is the evaluation of that information.

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The video player shows a screenshot of a Microsoft Outlook inbox. The email titled "Direct labor rates" from Jessica Sims is selected. The email content discusses labor rates and includes a table of data.

Employee	Rate
Jessie Pratt	\$40.13/hour
Reka Burrelster	\$40.13/hour
Ben Chalmers	\$40.13/hour
James Pratt	\$40.13/hour
Daniel Hayslett	\$40.13/hour
Jenny Morgan	\$40.13/hour
Phil Sorce	\$40.13/hour

Great job analyzing the estimated labor hours! There is only one component of the BBOMS direct labor costs left to analyze: direct labor rates. I have gathered some preliminary labor rate information for you from the National Compensation Wage Estimate.

Here is the evaluation of this information: In May 2009, the Mean Annual Income of a Civil Engineer is \$85,380.00 and that of a Civil Engineering Technician is \$60,890.00. The median hourly rate for a Civil Engineer is \$40.13/hour and a Civil Engineering Technician is \$27.45/hour. TSS has proposed a salary of \$84,760 for the civil engineer and \$58,240 for the civil engineering technician.

Thanks,
Jessica

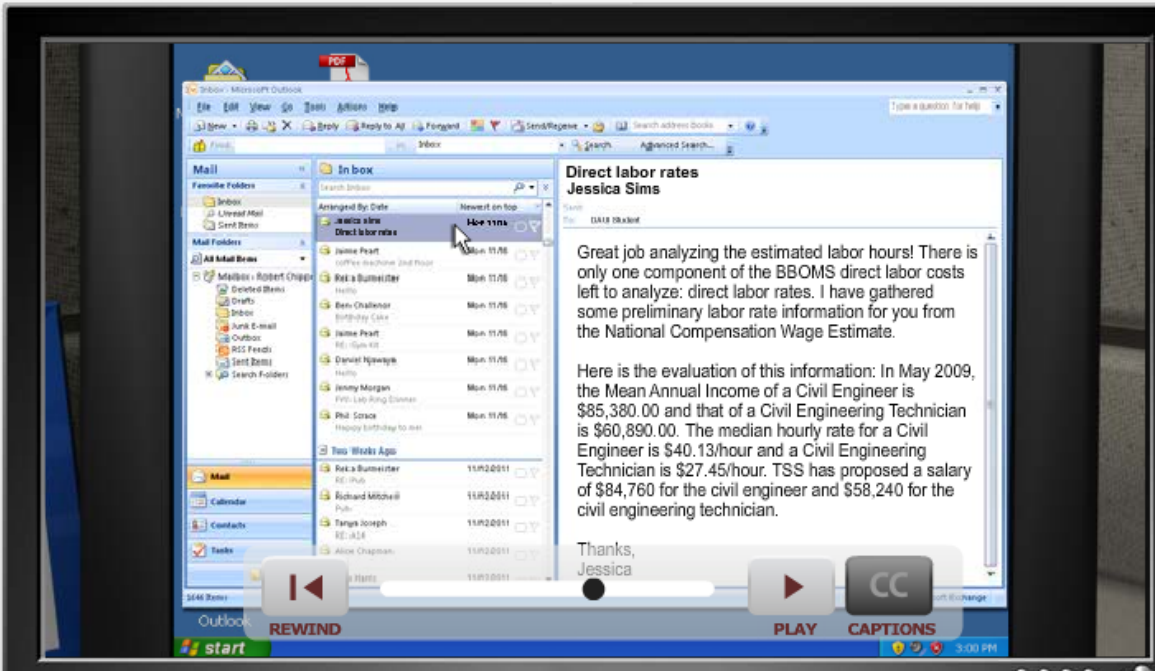
In May 2009, the Mean Annual Income of a Civil Engineer is \$85,380.00 and that of a Civil Engineering Technician is \$60,890.00.

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The screenshot shows a video player interface. The main content is a screenshot of a Microsoft Outlook inbox. The inbox list shows several emails, with the selected email titled "Direct labor rates" from Jessica Sims. The email body contains the following text:

Great job analyzing the estimated labor hours! There is only one component of the BBOMS direct labor costs left to analyze: direct labor rates. I have gathered some preliminary labor rate information for you from the National Compensation Wage Estimate.

Here is the evaluation of this information: In May 2009, the Mean Annual Income of a Civil Engineer is \$85,380.00 and that of a Civil Engineering Technician is \$60,890.00. The median hourly rate for a Civil Engineer is \$40.13/hour and a Civil Engineering Technician is \$27.45/hour. TSS has proposed a salary of \$84,760 for the civil engineer and \$58,240 for the civil engineering technician.

Thanks,
Jessica

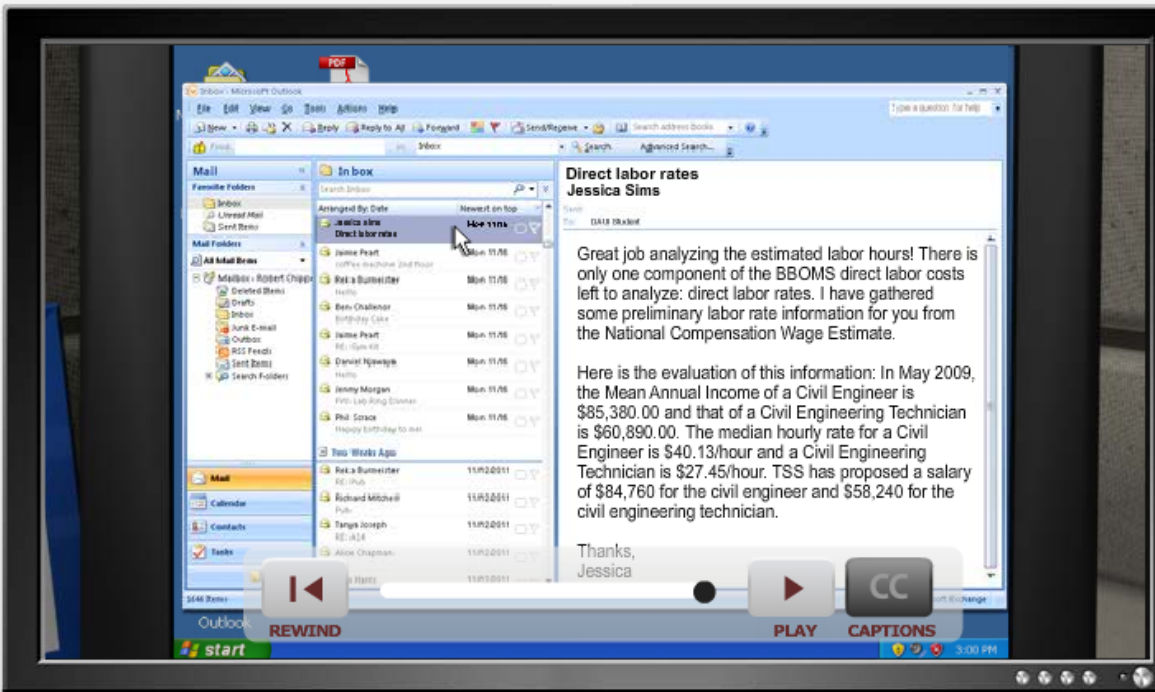
At the bottom of the video player, there is a progress bar and controls for REWIND, PLAY, and CAPTIONS. Below the video player, there is a text box stating: "The median hourly rate for a Civil Engineer is \$40.13/hour and for a Civil Engineering Technician is \$27.45/hour."

User Instructions: Select Next to continue.

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The screenshot shows a Microsoft Outlook inbox. The email titled "Direct labor rates" from Jessica Sims is selected. The email body contains the following text:

Great job analyzing the estimated labor hours! There is only one component of the BBOMS direct labor costs left to analyze: direct labor rates. I have gathered some preliminary labor rate information for you from the National Compensation Wage Estimate.

Here is the evaluation of this information: In May 2009, the Mean Annual Income of a Civil Engineer is \$85,380.00 and that of a Civil Engineering Technician is \$60,890.00. The median hourly rate for a Civil Engineer is \$40.13/hour and a Civil Engineering Technician is \$27.45/hour. TSS has proposed a salary of \$84,760 for the civil engineer and \$58,240 for the civil engineering technician.

Thanks,
Jessica

At the bottom of the video player, there is a caption: "TSS has proposed a salary of \$84,760 for the civil engineer and \$58,240 for the civil engineering technician. Thanks, Jessica"

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Challenge Question #5

Based on the information provided by Jessica, which of the following actions is the most correct?

- ☐ A. Accept the proposed direct labor cost. Hours/skill mix are consistent with the work per the technical evaluation, and labor rates proposed are comparable.
- ☐ B. Adjust the proposed direct labor cost by \$1,000 to account for the computation error - direct labor cost of \$143,000.
- ☐ C. Document your rationale for accepting the skill level, labor rate, and labor hours based on a technical evaluation, DCAA Audit Report, and comparison to the BLS labor statistics for the region. Adjust the contractor's proposed amount by \$1,000.
- ☐ D. Reject the proposed direct labor cost, as it is unreasonable based on the technical evaluation.

[Check Answer](#)

User Instructions: Select the correct answer.

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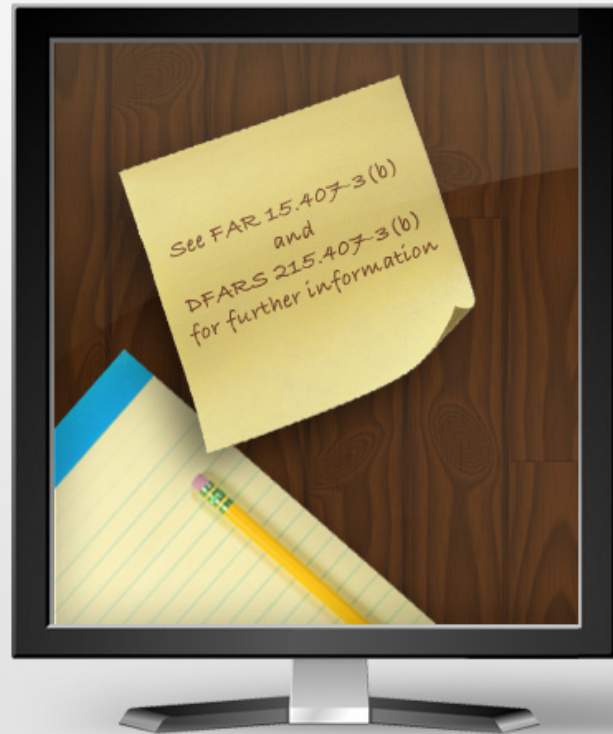
Evaluating Proposed Labor Rates

As you evaluate offeror labor rates, remember that employee compensation includes more than just wages. Many elements of compensation (e.g., pensions, savings plan benefits, incentive bonuses, and health insurance) typically appear in indirect cost accounts.

As a result, compensation analysis is a complex task that requires in-depth understanding of the firm's compensation package and accounting procedures.

In most cases, the government auditor and the administrative contracting officer (ACO) are the two government acquisition team members who have the most in-depth knowledge of a firm's compensation package and accounting procedures.

If a forward pricing rate recommendation (FPRR) or forward pricing rate agreement (FPRA) is in place, do not deviate from the ACO-recommended rates without first contacting the ACO.

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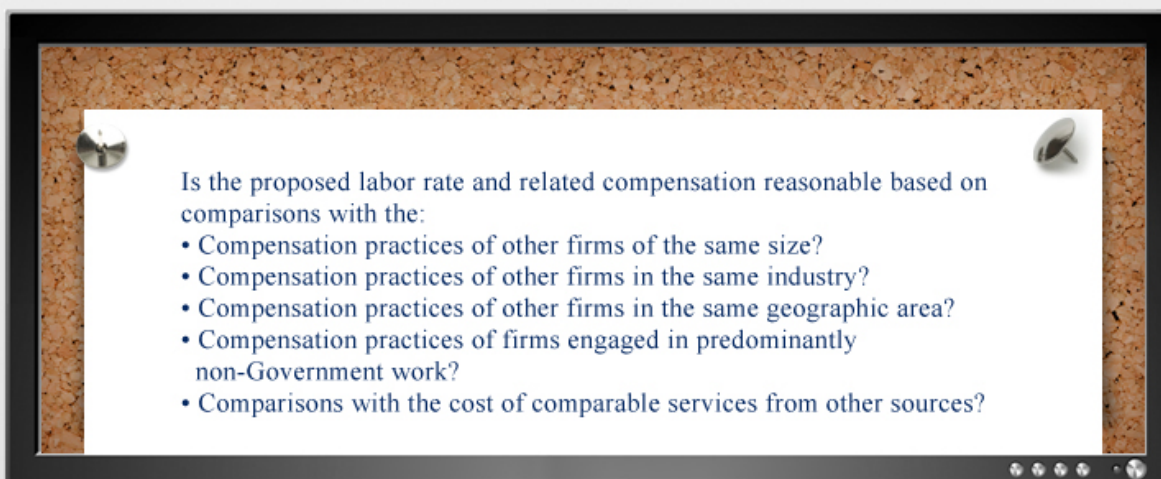
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Questioning Labor Rate Reasonableness

Center your labor-rate analysis on these five questions displayed below.

If you can answer yes to one or more of these questions, you should normally determine that the proposed labor rate is reasonable.



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Develop and Document Prenegotiation Position

It is important to develop and document your prenegotiation position on labor rates.

- If you accept the offeror's labor-rate estimate, document that acceptance.
- If you do not accept it, document your concerns and develop your own prenegotiation position.
- If you can identify information that would permit you to perform a more accurate labor-rate analysis, use that information.

As you make labor rate comparisons, consider the effect of the following factors:

- Government labor-rate requirements
- Skill mix of labor effort
- Time period of labor effort
- Company-unique factors

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Challenge Question #6

What Labor Law applies to contracts in excess of \$2,000 to which the United States or the District of Columbia is a party for construction, alteration, or repair of public buildings or public works within the United States?

- ☐ A. Davis-Bacon Act
- ☐ B. Service Contract Act
- ☐ C. Walsh-Healey Public Contracts Act
- ☐ D. Fair Labor Standards Act

[Check Answer](#)

User Instructions: Select the correct answer.

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Laws and Government Policies

The government is concerned that firms may attempt to compete by lowering employee compensation. As a result, the following laws and government labor policies have been put in place to limit a firm's ability to lower compensation.

- Service Contract Act of 1965, as amended
- Davis-Bacon Act
- Walsh-Healey Public Contracts Act

The Office of Federal Procurement Policy Letter No. 78-2, provides additional guidance for professional employee labor rates for large service contracts.



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Service Contract Act Requirements

To determine if the Service Contract Act of 1965 applies, consider the following factors:

- The Service Contract Act applies to service employees under Government service contracts in excess of \$2,500.
 - A service employee is any person engaged in the performance of a service contract except those employed in a bona fide executive, administrative, or professional capacity.
 - To be a service contract, the principle purpose of the contract must be to provide services. For example, the Act does not apply to contracts for equipment that require incidental services to install the equipment.



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Service Contract Act Requirements (cont.)

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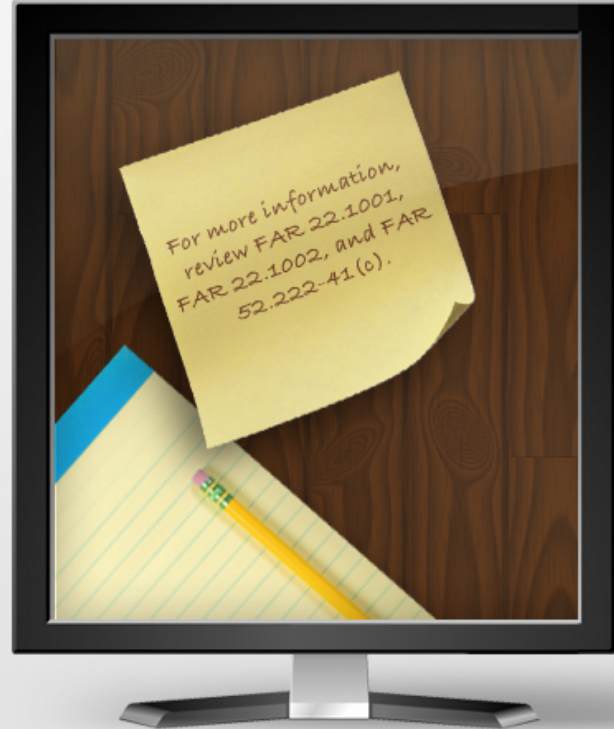
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Service Contract Act Requirements (cont.)

In addition, the Secretary of Labor has exempted several types of contracts from all provisions of the Act. These include:

- Most government contracts with common carriers
- Certain contracts between U.S. Postal Service and individual owner-operators for mail service
- Contracts for the carriage of freight or personnel if such carriage is subject to rates covered by Section 10721 of the Interstate Commerce Act
- Contracts principally for the maintenance, calibration, or repair of certain types of equipment.

[Select here to view the Service Contract Act \(SCA\) Wage Determination document.](#)



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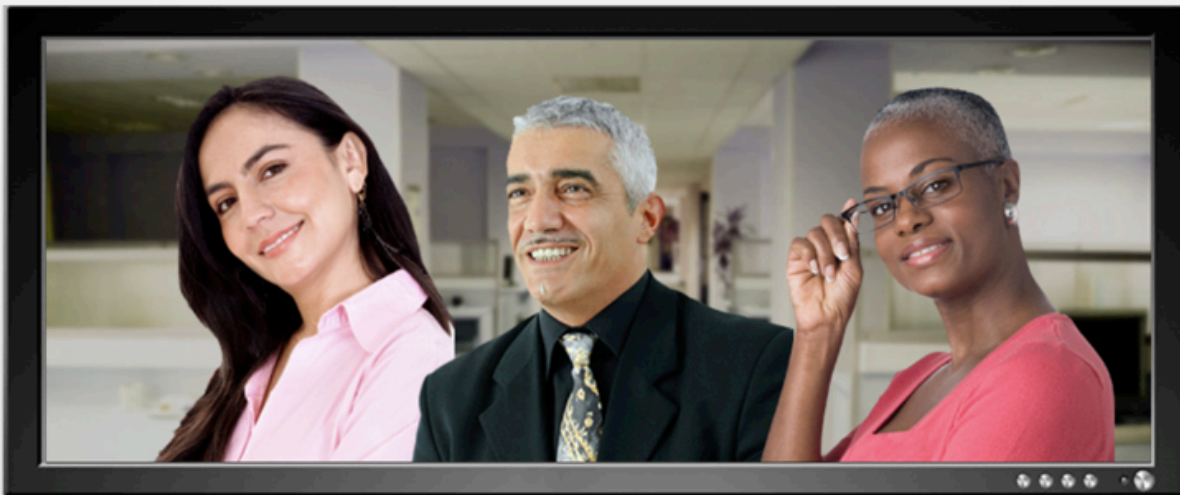
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Service Contract Act of 1965

As you analyze labor rate reasonableness, there are several questions to consider related to Service Contract Act of 1965, as amended.

Select each of the photos below to see these questions and their corresponding answers.



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Service Contract Act of 1965

As you analyze labor rate reasonableness under the Service Contract Act of 1965, as amended.

Select each of the photos below to see



Do the proposed labor rate and related fringe benefits meet the minimum requirements established by any Department of Labor(DoL) wage determination (for that class of employee) attached to the solicitation/contract?

A contractor must pay the wages and fringe benefits required by the wage determination for that class of labor. Those requirements are based on DoL's evaluation of the prevailing wage rates and fringe benefits in the locality.

- If a wage rate determination is attached, the offeror must classify any class of service employee which is not listed in the determination but is employed under the contract in a manner that provides a reasonable relationship between the unlisted classifications and the classifications listed in the wage determination.

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Service Contract Act of 1965

As you analyze labor rate reasonableness under the Service Contract Act of 1965, as amended.

Select each of the photos below to see



Do the proposed labor rate and related fringe b...

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- If a wage rate determination is attached, the offeror must classify any class of service employee which is not listed in the determination but is employed under the contract in a manner that provides a reasonable relationship between the unlisted classifications and the classifications listed in the wage determination.
- For example, a more skilled person in a similar class of work could not make less money than an employee covered by the wage determination.
- However, you cannot require an offeror to comply with a wage determination when none is provided to the offeror. If there is no wage determination, the offeror must propose to pay at least the minimum wage established by the Fair Labor Standards Act.

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Service Contract Act of 1965

As you analyze labor...

Contract Act of 1965...

Select each of the p...

If the labor rate exceeds the appropriate Department of Labor wage determination, is the difference reasonable?

The wage determination only sets the minimum wage that can be paid for a particular class of labor. The offeror may pay more than the minimum. However, remember that these wage determinations are based on the prevailing wage in the locality or the collective bargaining agreement negotiated by the contractor under any predecessor contract.

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related to Service

answers.

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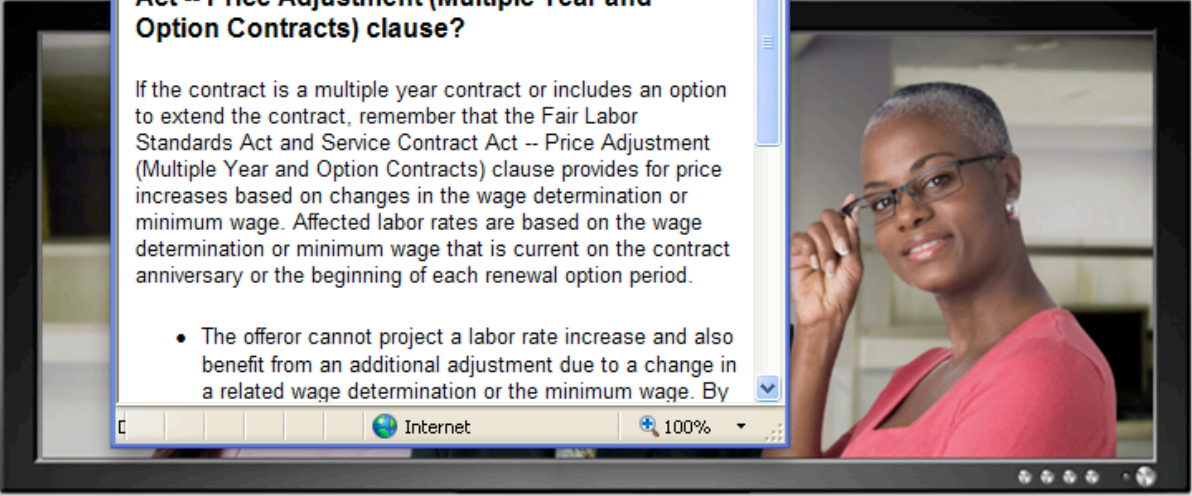
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Service Contract Act of 1965

As you analyze the Service Contract Act of 1965, consider related to Service Contract Act.

Select each of the following statements that apply to the Service Contract Act of 1965. Responding answers.



Do proposed rate increases conflict with the Fair Labor Standards Act and Service Contract Act -- Price Adjustment (Multiple Year and Option Contracts) clause?

If the contract is a multiple year contract or includes an option to extend the contract, remember that the Fair Labor Standards Act and Service Contract Act -- Price Adjustment (Multiple Year and Option Contracts) clause provides for price increases based on changes in the wage determination or minimum wage. Affected labor rates are based on the wage determination or minimum wage that is current on the contract anniversary or the beginning of each renewal option period.

- The offeror cannot project a labor rate increase and also benefit from an additional adjustment due to a change in a related wage determination or the minimum wage. By

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Service Contract Act of 1965

As you analyze the Service Contract Act of 1965, consider related to Service Contract Act.

Select each of the following statements that apply to the Service Contract Act of 1965. Selecting the correct answers will result in the correct response.



Do proposed rate increases conflict with the Fair Labor Standards Act?

about:blank

submitting an offer under a solicitation that includes the above clause, the offeror certifies that the offer does not include any allowance for any contingency covered by the clause.

- The offeror can project labor rate increases that are not covered by the clause. For example, if the offeror's labor rate is \$7.25 and the wage determination is \$7.00, the labor rate would not be affected by an increase in the wage determination from \$7.00 to \$7.05. If the offeror projects an increase in the \$7.25 labor rate to \$7.30 after one year, that must be separately estimated. Still, remember that wage determinations are based on the prevailing wage in the locality, the collective bargaining agreement negotiated by the contractor under any predecessor contract, or the minimum wage set forth in the Fair Labor Standards Act.

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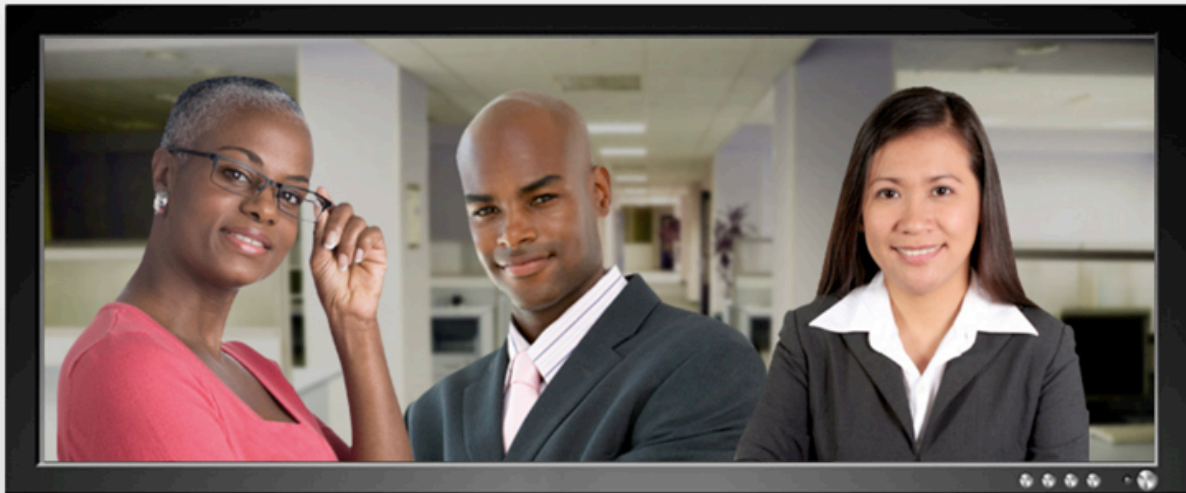
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Davis-Bacon Act Requirements

To determine if the Davis-Bacon Act applies to a given situation, you might want to ask some specific questions.

Select each of the photos below to see these questions and their corresponding answers.



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Davis-Bacon Act Requirements

To determine if the Davis-Bacon Act applies to a project, answer the following questions.

Select each of the photos below to see if the Davis-Bacon Act applies to the project.



Does the Davis-Bacon Act apply to this type of labor?

The Davis-Bacon Act applies to laborers or mechanics at the site of work for any Government or District of Columbia contract in excess of \$2,000 for construction, alteration, or repair (including painting and decorating) of public buildings or public works within the United States.

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Davis-Bacon Act Requirements

To determine if the Davis-Bacon Act applies to a particular project, ask some specific questions.

Select each of the phrases that apply to the project.



If the labor rate exceeds the appropriate Department of Labor wage determination, is the difference reasonable?

The wage determination only sets the minimum wage that can be paid for a particular class of labor. The offeror may pay more than the minimum. However, remember that these wage determinations are based on the prevailing wage in the locality.

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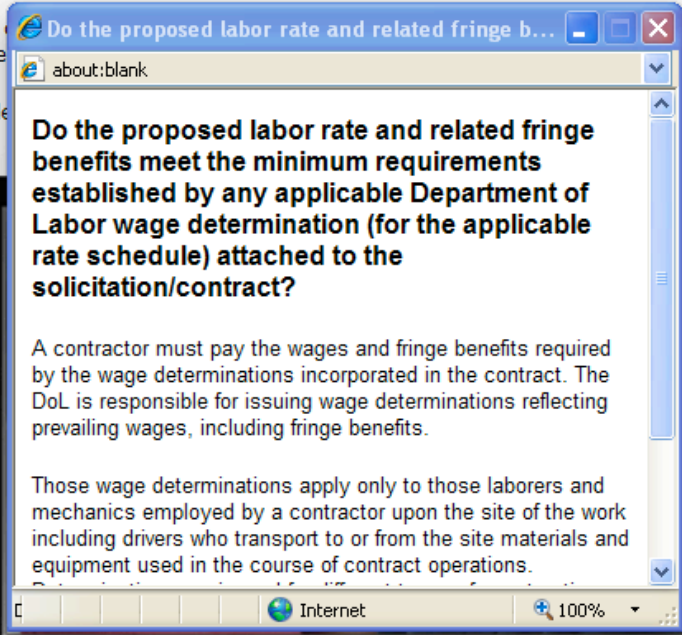
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Davis-Bacon Act Requirements

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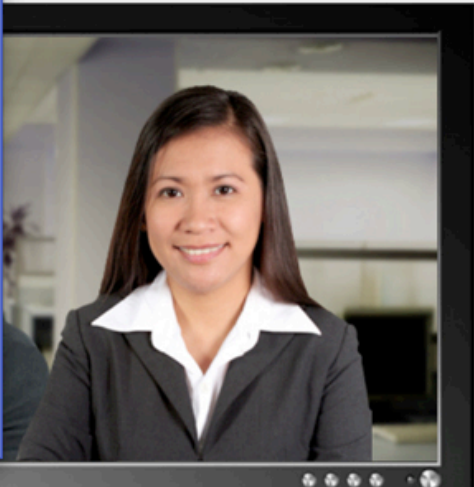
Select
corresponding answers.



Do the proposed labor rate and related fringe benefits meet the minimum requirements established by any applicable Department of Labor wage determination (for the applicable rate schedule) attached to the solicitation/contract?

A contractor must pay the wages and fringe benefits required by the wage determinations incorporated in the contract. The DoL is responsible for issuing wage determinations reflecting prevailing wages, including fringe benefits.

Those wage determinations apply only to those laborers and mechanics employed by a contractor upon the site of the work including drivers who transport to or from the site materials and equipment used in the course of contract operations.



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Davis-Bacon Act Requirements

To complete this module, you might want to ask some specific questions.

Select the correct answer for each question, and click on the corresponding answers.

Do the proposed labor rate and related fringe b...

about:blank

solicitation/contract?

A contractor must pay the wages and fringe benefits required by the wage determinations incorporated in the contract. The DoL is responsible for issuing wage determinations reflecting prevailing wages, including fringe benefits.

Those wage determinations apply only to those laborers and mechanics employed by a contractor upon the site of the work including drivers who transport to or from the site materials and equipment used in the course of contract operations. Determinations are issued for different types of construction, such as building, heavy, highway, and residential (referred to as rate schedules), and apply only to the types of construction designated in the determination.

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Walsh-Healey Public Contract Act

The Walsh-Healey Public Contract Act applies to contracts and subcontracts for the manufacture or furnishing of supplies within the United States, Puerto Rico, or the Virgin Islands, and which exceed or may exceed \$10,000, unless exempted.

Statutory exemptions include contracts for any of the following:

- Any item acquired in a situation where you are authorized by the express language of a statute to purchase "in the open market" generally or where a specific purchase is made under a public exigency.
- Perishables, including dairy, livestock, and nursery products.
- Agricultural or farm products processed for first sale by the original producers.
- Agricultural commodities or the products thereof purchased under contract by the Secretary of Agriculture.

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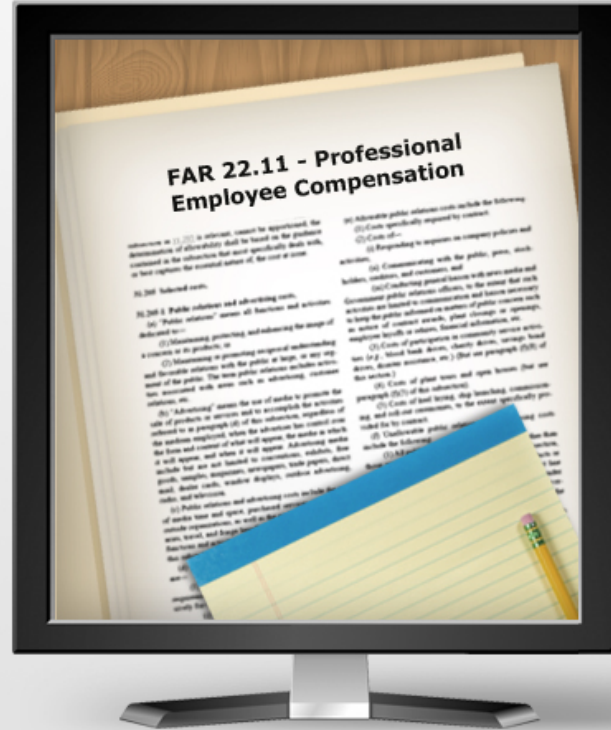
Professional Employee Compensation

The Service Contract Act of 1965 was enacted to ensure that Government contractors compensate their blue-collar service workers and some white-collar service workers fairly.

This Act does not cover bona fide executive, administrative, or professional employees. A professional employee is any person employed in a bona fide professional capacity, such as accounting, actuarial computation, engineering, or medicine.

FAR 22.11 provides policies and procedures for use in negotiated service contracts exceeding \$550,000 that involve meaningful numbers of professional employees.

If the proposal falls under the Service Contract Act of 1965, the offeror must propose labor rates and related compensation according to its guidelines.



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Challenge Question #7

Which of the following company-unique factors should you consider when analyzing direct labor rates?
Select all of the correct answers.

☐ A. Uncompensated overtime

☐ B. Paid overtime and shift premiums

☐ C. Part-time temporary status

☐ D. Compensation trade-offs

Check Answer



User Instructions: Select the correct answers and then select the Check Answer button.

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Labor Rates and Time Periods

Unless the proposed contract is going to be completed within a few weeks of contract award, the time period or periods when work will be performed becomes very important.

Labor rates are not constant. To develop a realistic estimate of direct labor costs, the estimate must match the labor-hour estimate with a reasonable labor rate for the period when the work will take place.

The offeror's proposal should include labor-loading schedule or a time-phased (e.g., monthly or quarterly) breakdown of labor hours, rates, and costs by labor category.

The offeror may estimate rates for each month, quarter, year, or some other period. Whatever estimating periods the offeror uses to estimate labor rates, the estimate should use the same periods.



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Labor Management Agreements

Proposed labor rates should normally conform to any labor-management agreement on wages or salaries.

However, contractor labor policies and compensation practices, whether or not included in labor-management agreements, are not acceptable bases for analyzing proposed labor rates if those policies and practices result in unreasonable costs to the government.

You should consider costs of compensation established under "arm's length" negotiated labor-management agreements reasonable, if you do not determine that they are unwarranted by the character and circumstances of the work or discriminatory against the government.

[Select here to view a Collective Bargaining Agreement.](#)

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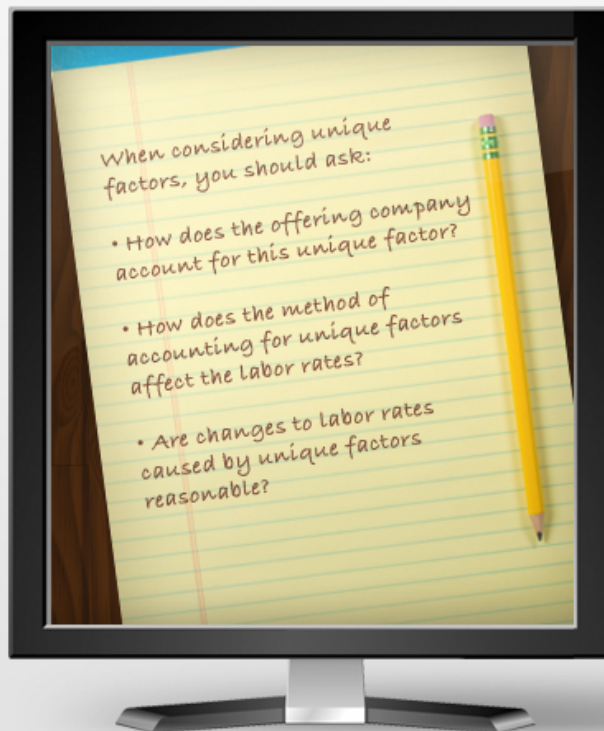
Considering Company-Unique Factors

There can be vast differences in the compensation policies and procedures of different firms, even when the firms are in the same industry and region. You must consider these differences as you perform your direct labor-rate analysis.

Company-unique factors include:

- Uncompensated overtime
- Paid overtime and shift premiums
- Changes in labor demographics
- Compensation trade-offs

When analyzing company-unique factors, consider how the offering company accounts for them, how the method of accounting affects the labor rates, and if those changes are reasonable.



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Direct Labor Cost Element

Cell B6 on your Direct Labor worksheet contains your prenegotiation objective for direct labor.

	A	B	C	D	E	F	G	H	
1	Annual hours per FTE			2,080					
2									
3	Direct Labor Category	Contractor Proposed Position	Contractor Proposed Rate	Factor	BLS Median Wage Rate (AK)	BLS Median Annual Salary (AK)	BLS Mean Wage Rate (AK)	BLS Mean Annual Salary (AK)	Standard Occupational Classification (SOC)
4	Civil Engineer I	\$ 84,760.00	\$ 40.75	1.00	\$ 40.13	\$ 83,470.40	\$ 41.04	\$ 85,363.20	17-205
5	Civil Engineering Technician I	\$ 58,240.00	\$ 28.00	1.00	\$ 27.45	\$ 57,096.00	\$ 29.27	\$ 60,881.60	17-302
6	Total	\$ 143,000.00				\$ 140,566.40		\$ 146,244.80	
7									
8									
9									
10		Note: Contractor total was in error. Proposed \$144,000, a \$1000 overstatement.							
11									
12									
13									
14									

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Prenegotiation Amount

Cell B6 from the Direct Labor worksheet automatically populates cell E12 on your prenegotiation summary sheet.

	Contractor's Proposal		Government Objective			Negotiated Amount	
	Cost Elements	Proposed Amount	Pre-negotiation Amount	Cost Data Analysis	Rates	Pre-negotiation Amount	Cost Data Analysis
3	Material and Subcontracts						
4	Purchased Parts & Raw Material	\$ 412,805.99	\$ 382,655.89				
6	Scrap @ 5% of PP/RM	\$ 20,640.30	\$ 17,219.52	Scrap Rate	4.50%	\$ -	Scrap
8	Subcontracts	\$ 643,834.38	\$ 643,834.38				
10	Total Material Costs	\$ 1,077,280.67	\$ 1,043,709.78			\$ -	
12	Direct Labor	\$ 144,000.00	\$ 143,000.00				
14	Labor Overhead @ 135%	\$ 194,400.00	\$ 193,050.00	Direct Labor Overhead Rate	135%	\$ -	Direct Labor Overhead
16	Other Direct Costs	\$ 77,665.97	\$ 86,932.36				
18	Subtotal	\$ 1,493,346.64	\$ 1,466,692.14			\$ -	
21	General & Administrative Expense @ 15% of TCI	\$ 224,002.00	\$ 163,827.53	G&A Expense Rate	11.17%	\$ -	G&A Expense

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Analyzing Direct Labor Costs


Summary

Congratulations! You have completed this module, which has provided information on analyzing direct labor costs.

Review the graphic on the right to see the key points for this module.

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Summary (cont.)

Now that you have completed this module, you should be able to:

- Identify labor classifications
- Identify proposed direct labor mix
- Relate proposed labor hours to work requirements to determine reasonableness of direct labor costs
- Examine proposed labor rates to determine a fair and reasonable pre-negotiation position



User Instructions: Select the next module from the Table of Contents to continue.

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