



**ARMY CONTRACTING COMMAND**

**CONTRACT FILE INTERNAL CONTROL REQUIREMENTS FOR  
INDEPENDENT GOVERNMENT COST ESTIMATES (IGCE)  
DESK BOOK**

**July 2011**

Contract File Internal Control Requirements for Independent Government Cost Estimates (IGCE) Desk Book

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## Contract File Internal Control Requirements for Independent Government Cost Estimates (IGCE) Desk Book

**1. Background.** This desk book affirms internal control requirements for: including identifying information of preparers, approving reviewers, contact information, certifying statements, signatures, dates of preparation and review and narrative supporting IGCE conclusions. This desk book also presents standard requirements to foster a strong internal control process for IGCE documentation in contract files. A strong internal control process will help validate and provide credibility and consistency of documentation within the IGCEs. A sample Contracting Officer's (KO) request, at page 9, reinforces the IGCE requirements detailed below and can be used to document KO communications to the requiring activity. The Federal Acquisition Regulation (FAR) 4.803(a)(7) identifies that Government estimates of contract prices are normally included in contract files. This desk book also presents general information on examples of cost/price elements and research links. This desk book is not intended to include all components or examples of IGCE documentation or be a "how to" for preparing IGCEs.

**2. Contract File Requirements.** An IGCE, sometimes referred to as Independent Government Estimate (IGE) or Government Estimate (GE), is required to be included in the contract file for every procurement action in excess of the Simplified Acquisition Threshold (SAT). The SAT is currently defined at FAR 2.101 as \$150,000. FAR 36.203 states a Government estimate of construction costs shall be prepared for each proposed contract and for each contract modification anticipated to exceed the SAT. Army Regulation 70-13, Management and Oversight of Service Acquisitions, Section 3-3.c., states a Government estimate is required for every new acquisition that exceeds the SAT. The extent of IGCE documentation may vary, but shall include:

- a. The name(s) of the preparer, approving reviewer and position title(s);
- b. The preparer and approving reviewer organization and contact information (telephone & e-mail);
- c. A signature and date (either hand signed or Common Access Card signed) for the preparer and approving reviewer;
- d. A statement certifying the IGCE was developed independently and prior to seeking any formal proposals from contractors; and,
- e. A narrative supporting how costs/prices were developed with sufficient analytical support, such as spreadsheet information or a word document that explains the purpose, scope, IGCE preparer conclusions, and clearly identifies reference material used. The narrative should be sufficient in detail and scope to allow the KO to understand what analytical procedures the IGCE preparer used, how supporting documents/ information were used, and the IGCE preparer conclusions.



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**3. IGCE at Price vs. Cost.** IGCEs at price may be based on readily available current market prices (such as catalog or list prices) or on previous prices proposed in competitive situations and adjusted to current price levels. The KO may be requested to provide information on research for "pricing" information. IGCE documentation may include:

- a. Prices and quotes, such as published or current catalog prices;
- b. Previous prices and quantity purchased;
- c. Quantity of items to be purchased;
- d. Analytical methods used to calculate prices; or,

e. Market Surveys and other miscellaneous source of pricing data. Documentation for IGCEs at cost should include a breakdown of costs anticipated in performance of the contract. Costs are generally segregated into cost elements of categories of labor, direct labor rates, payroll additives (burden or fringe), other direct costs, indirect costs (overhead), G&A, and profit/fee. IGCE cost documentation may include the following elements:

(1) **Labor Costs.** Direct labor is the labor directly applied to the performance of the contract requirements. Indirect labor includes costs of personnel in a support capacity that support the direct performance of the service contracted (e.g. supervisory, inspection, maintenance, custodial, clerical, etc). Direct labor may be covered by the Department of Labor wage determinations, provided under the provisions of the Service Contract Act (SCA) for services or the Davis-Bacon Act (DBA) for construction, and are considered non-exempt. All non-exempt wages must be paid at a rate no less than that identified on the applicable wage determination. Personnel who are exempt are not covered by the wage determination but will receive comparable benefits and wages to like employees in both industry and the Government.

(a) Non-exempt employee must be paid no less than the rate of pay listed in the wage determination. Exempt employees are essentially salaried employees and exempt from coverage under the wage determinations. Salaries can be estimated based on comparable positions, performing the same or similar duties covered by government personnel, market analysis, and/or available history.

(b) The IGCE preparer should identify all labor categories required for each task that comprises the Performance Work Statements by Contract Line Item Number (CLIN) for each year of anticipated effort (including options).

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(c) Labor hours are divided into productive and non-productive time. Productive time, sometimes called Full Time Equivalent, is time the worker spends actually performing their duties. Non-productive time includes paid leave time or paid time off and potentially other paid non-productive time, such as breaks, training time, and downtime. The sum of productive and non-productive time is available time, usually 52 weeks at 40 hours per week. Productive time is charged directly to the contract as direct labor, while non-productive time is usually charged to fringe benefits overhead pools and charged indirectly to the contract through a fringe benefits burden rate.

(d) The SCA Area Wage Determinations usually mandate a minimum amount of time for holidays (normally the ten Federal holidays, although 11 have been incorporated in some based on Collective Bargaining Agreement results) and vacation or personal leave. SCA-subject positions may have 160 or more hours of leave mandated, as a minimum. Exempt personnel may receive more, less, or the same amount of leave.

(e) The IGCE preparer should consider wage determinations for the DBA covering the construction and repair/maintenance trades. The SCA skills for service contracts can be accessed at the following web site: <http://www.wdol.gov>.

(2) **Payroll Additives**. Components of the fringe benefits package are available at [www.bls.gov/ncs/ect](http://www.bls.gov/ncs/ect) (choose "databases," "Pay & Benefits," then "Employer Cost for Employee Compensation" from the menu and complete the screens for the "Multiscreen Data Search" option) for various geographic areas, industries (North American Industry Classification System codes), union/non-union employees, business sizes, and certain individual occupations. Typical groupings of fringe benefits and payroll taxes include the following costs.

(a) **Health & Welfare (H&W)**. H&W includes life, accident and health insurance plans. The application of H&W is dependent upon the wage determination issued by the Department of Labor (DOL). Currently, \$3.50 per hour (as of 2011) is approved for all wage categories covered by the SCA (services). The IGCE preparer should research individual DBA wage determinations for specific fringe benefits for H&W. The rate of \$3.50 should be multiplied by all projected wage category hours covered under the SCA.

(b) **Payroll Taxes**. This category is comprised of the following legally required employer contributions:

- **Federal Insurance Contributions Act (FICA)**. The FICA tax rate is 7.65% (6.2% for Social Security and 1.45% for Medicare). This rate has been constant



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for a number of years and rarely changes. Multiply 7.65% by total wages, up to the FICA maximum rate of \$106,800 (for calendar year 2011).

- Federal Unemployment Taxes (FUTA). The FUTA is set by the federal government. FUTA is paid on the first \$7,000 of total wages and is multiplied by a factor of 6%. This rate changes periodically, therefore, check the IRS web page at: <http://irs.gov/formspubs/>, for the current rate.

- State Unemployment Taxes (SUTA). The SUTA is set by individual state governments and is paid of the first \$9,500 (as of 2011) of total wages. SUTA varies based on the type of business involved. Rates may be available from the state taxation or unemployment website. If individual state SUTA rates are not available, the IGCE preparer can use an average rate of 3.0%. Multiply this percentage by the first \$9,500 in wages per employee.

- Workers' Compensation (WC). The WC is insurance designed to cover injuries and associated benefits that arise from work related injuries. The rate for computation of costs varies from state to state and, for the most part, is dependent upon a contractor's years of business in the state and claims-related experience. Worker's compensation is applied to total wages and will vary between 2-5% of the total payroll. The state tax code or taxation website can provide more details.

- Retirement and Pension Plans. Some companies provide retirement contributions for their employees, especially exempt (i.e., managerial and technical) employees. These contributions may be provided through 401(k) accounts, to which many employers contribute a percent of an exempt employee's salary, either as a matching or single contribution. Currently, the Bureau of Labor Standards database shows a national average for private industry as \$1 for each hour worked for the first quarter of 2011. The national average for non-union personnel is 4.1% of wages and the union average is 4.7% of wages.

- Paid Time Off. This category includes employer-paid holidays, vacations, sick leave, jury leave and other types of leave. This normally equates to 2,080 hours, minus total productive hours, multiplied by the hourly rate. Nationally, it is currently 12.10% of hourly pay for union employees and 9.27% for non-union employees. The Bureau of Labor Standards database shows a national average rate of \$1.92 for each hour worked for the first quarter of 2011.

(c) Straight Line Approach. An average overall labor burden rate may be used to compute fringe benefits. As of the first quarter of 2011, the private industry rate of 27.9% of total compensation for total benefits is the national average for non-union labor. The national average for union labor is 38.9%. For all occupations, regardless of the type of labor, the average rate is 29.3%. One of these rates may be used, as

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applicable, in place of the separate computation of benefits, as outlined above. This may not be adequate for some high cost areas of the country or for DBA/SCA categories. One can determine a combined rate that includes all major components (also at: [www.bls.gov/ncs/ect](http://www.bls.gov/ncs/ect)), as described above, and choosing the "03 Total benefits" option on the "Compensation Component" scrolling dialogue box. The following exhibit presents the Compensation Component of Total Benefits for the first quarter, 2011, from the Bureau of Labor Standards Sector of Private Industry.

**Exhibit**

Compensation Component of Total Benefits for 1st Qtr of 2011		
Bureau of Labor Standards Sector of Private Industry		
Category	Cost Per Hour Worked	Percent of Total Compensation
All Occupations	\$ 8.25	29.3%
Nonunion	\$ 7.56	27.9%
Union	\$ 14.67	38.9%
Northeast	\$ 9.81	30.5%
New England	\$ 9.91	29.5%
Middle Atlantic	\$ 9.76	30.9%
South	\$ 7.02	28.1%
South Atlantic	\$ 7.07	27.7%
East South Central	\$ 6.62	29.2%
West South Central	\$ 7.11	28.4%
Midwest	\$ 8.29	30.2%
East North Central	\$ 8.52	30.7%
West North Central	\$ 7.78	28.9%
West	\$ 8.67	29.0%
Mountain	\$ 7.75	27.8%
Pacific	\$ 9.07	29.4%

<http://data.bls.gov/cgi-bin/dsrv>

(3) **Other Direct Costs (ODC).** The ODC category may include estimates of the types and quantity of material, equipment, and travel estimated to perform the Statement of Work requirements. These costs may be charged directly against the final cost objectives. Materials used in direct support of the contract, such as vehicles, computers, office furniture, travel, lease of equipment, per diem; etc., may also be



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included in the IGCE ODC. Item descriptions, quantities and related cost estimates can be obtained using catalogs, price quotes, market surveys, historical data, etc. The IGCE preparer should provide documentation on such areas as the number of items, number of trips by locations and personnel, and material by type, quantity and location. The IGCE preparer may consider estimating subcontract costs as part of ODC or may estimate subcontract costs as separate line item estimates.

(4) **Other Indirect (Overhead) Costs.** Other indirect costs that cannot be applied to a specific cost category, but is in support of IGCE requirement, is called indirect overhead. Indirect overhead may include expenses, such as indirect personnel and their fringe benefits/payroll taxes, utilities and facilities costs. Indirect overhead is often expressed as a percentage or rate of the sum of the projected pool of overhead expenses, divided by a base of direct labor dollars. Indirect overhead will vary based upon variables, such as ownership/lease of facilities, location of work site, number of projected indirect personnel, etc. The IGCE preparer may consider all projected requirements and may provide documentation of program history to estimate average projected indirect overhead rates.

(5) **General & Administration (G&A).** G&A costs are any management, financial, or other expenses incurred for the overall operation of a business. These costs are distributed equally across all contracts. It includes costs such as officers' salaries, officer compensation packages, corporate building costs, taxes, accounting fees, business insurances, legal costs, as well as non-contract specific leases, equipment and supplies. G&A is typically expressed as a percentage or rate of the sum of the projected pool of G&A expenses, divided by total costs of labor, overhead, other direct costs, materials, and material overhead.

(6) **Profit/Fee.** Profit or fee is the dollar amount over and above any allowable costs paid to a contractor for performance. The profit or fee percentage will vary due to the projected contract type and other issues. The IGCE preparer and KO should discuss the proposed profit/fee structure.

**4. Escalation Considerations for the IGCE.** The impact of economic changes in costs or prices should be considered by the IGCE preparer when forecasting out years costs or prices. The Department of Labor Consumer Price Index (CPI) provides data and percentage of change in inflation/escalation factors. CPI information is available at: <http://www.bls.gov/cpi/>.

**5. Commercial Supply IGCE.** IGCE documentation may determine the market value of an item. The IGCE preparer may use methods such as:



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- a. 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/>;
- b. Published price lists from individual companies that is published for use by the general public;
- c. Catalog pricing, such as a department store;
- d. Market survey of a comparison of the prices offered within the local area for an item, or;
- e. 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.

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**EXAMPLE**

**Contracting Officer's Request for Conforming IGCE Documentation**

OFFICE SYMBOL

MEMORANDUM FOR REQUIRING ACTIVITY

SUBJECT: Independent Government Cost Estimate (IGCE) for (acquisition title)

1. A properly documented IGCE provides an important safeguard by establishing internal controls and an audit trail for the Government's final contract price. Documentation should include the following items as the minimal conforming standards expected. Accordingly, the undersigned requests that subject IGCE documentation include all of the following:

- a. The name(s) of the IGCE preparer(s), approving reviewer(s) and position title(s);
- b. The preparer(s) organization and contact information (telephone & e-mail);
- c. A signature and date (either hand signed or Common Access Card signed) for the preparer(s) and approving reviewer(s);
- d. A narrative supporting how the costs/prices were developed with sufficient analytical support such as spreadsheet information or a word document that explains the purpose, scope, IGCE preparer conclusions and clearly identifies reference material used.
- e. A statement certifying the IGCE was developed independently and prior to seeking any formal proposals from contractors; such as: "The IGCE preparer(s) and IGCE approving reviewer(s) certify the IGCE was developed independently and prior to seeking a formal proposal from any contractor."

2. All IGCE information shall be retained in the contract files per FAR 4.803(a)(7).

Contracting Officer's Signature Block