

Chapter 3
COST VARIANCE ANALYSIS

3-1. GENERAL

a. Definition. Cost variance *is* the difference between the baseline cost estimate and the CE of program costs. The baseline for the SAR is the DE unless the SAR is submitted prior to Milestone II, in which case the PE is used.

b. Format. Figure 3-1 portrays a typical Format G, Cost Variance Analysis, and the relationship of the cost figures to Format E, Program Acquisition Cost. The cost variances are classified and reported according to the definitions in paragraphs 3-2a. through 3-2.h. The escalation column will reflect escalation, both economic escalation and escalation related to program changes, estimated from the base year of the program. All other cost data reflected in the Development, Procurement, and Construction columns will be expressed in base year constant dollars. The remarks should explain concisely but completely the cause and circumstances of each change. These remarks may be physically located in the Remarks column or may follow immediately after the table of changes. The explanation of changes since the previous report, Current Changes, should be specific. The explanation of Previous Changes may be more general. The general requirements for each line entry are as follows:

(1) Development Estimate. Enter in the appropriate columns **the** applicable costs reflected in column 1 of the Program Acquisition Cost section (Format E). The parenthetical entries for escalation reflect the amount of economic escalation included in the PE/DE for each appropriation and may be shown in the Remarks column if desired.

(2) previous Changes. For each cost variance category, enter in the **appropriate** columns the cost variances between the PE/DE and the CE that reflect the cumulative cost of such changes through the previous quarter. Corrections to Previous Changes will be shown as Current Changes. For example, if the previous Other Change of +15 Total should have been classified as Estimating, the Current Changes would show -15 for Other and +15 for Estimating with the appropriate base year **dollar** and escalation entries.

(a) Economic Changes. As defined in paragraph 3-2a., these include changes in the CE resulting from actual escalation different from that previously assumed and from revisions to prior assumptions regarding future escalation. Enter such changes in the Escalation and Total columns and identify the amounts for each appropriation.

(b) Program Changes. **These include all types of cost** changes listed in paragraphs 3-2.b. through 3-2.h. Such program changes will provide the best estimate of costs including experienced and projected

escalation. Enter the cost of the program change in base year constant dollars by appropriation for each variance category.. **Enter the escalation** related to the program change, estimated from **the** base year, in the Escalation column and identify **by** appropriation. When negative program changes impact on the current provision for economic escalation, report escalation associated **with** these changes **as** Economic Change, to the extent such escalation was previously reflected in the **CE**.

(3) Current Changes. For each cost variance category, enter in the appropriate columns the cost variance between the **PE/DE** and the CE that reflects the cost of such changes for the current quarter. The guidance provided under paragraph 3-lb.(2) for reporting economic and program changes in the Previous Changes section applies also to the reporting of economic and program changes for the Current Changes section.

(4) Total Changes. Enter in the appropriate columns the sum of the subtotals for Previous Changes and Current Changes. These should agree with the appropriation and escalation totals reported in column 2 of the Program Acquisition Cost section.

(5) Current Estimate. Enter in the appropriate columns the applicable costs reflected in column 3 of the Program Acquisition Cost section. The DE (3-lb.(1)) plus or minus the Total Changes (3-lb.(4)) must equal the CE. The parenthetical entries for escalation will reflect the sum, by appropriation, of such entries under the DE (paragraph 3-lb.(1)) and those shown for Previous and Current Changes.

3-2. COST VARIANCE CATEGORIES

a. Economic Change. A change due solely to operation of the economy. This includes changes in the **CE** resulting from actual escalation different from that previously assumed and revision of the assumptions regarding future escalation. However, changes that are intended to reflect actual escalation in prior years must have prior approval of **ASD(C)**.

(1) Economic changes occur only when indices are changed or when there is a negative program change (a cost reduction in any category).

(2) Maintenance of an audit trail, whether for SAR purposes or for documentation requirements for **program/milestone** reviews, requires a consistent and unbroken price level index series from the program base year. When actual inflation differs from the escalation previously projected, the index series must be revised. If the index values for the budget and prior years change, an adjustment to both the base year and escalation dollars will be required.

(a) If the index value for a prior year increases, the escalation associated with that **year's** base year dollars will increase. The increase is an Economic Change. If the increase is covered by reprogramming authority, no further variance category entries are required.

(b) If Total Obligational" Authority is held constant (that is, if reprogramming **is denied** for the budget year), the Economic **Change** must be offset by one or more appropriate variance category entries. For example, if the increase is absorbed within existing funding with no change in quantities, configuration, or major schedule milestones, an Estimating Change is required. This indicates that all planned effort will be accomplished for less cost than previously estimated.

(c) There **is** no requirement to update routinely prior year's indices. However, when the detailed program cost estimate is formally updated, a prior year's escalation adjustment may be necessary. Additional discussion on this subject is in paragraph 3-4.b.

(3) If **ASD(C)** approval for the prior year escalation change is requested, 20 calendar days should be allowed for the response.

(a) If a prior year escalation change is the result of applying published OSD **indices**, which typically include revised values for one or two prior years, no approval authority is required.

(b) If a prior year escalation revision is the result of a new estimate prepared for a major program or milestone review, no prior approval is required if the estimate was reviewed by the Cost Analysis Improvement Group (**CAIG**) and the program decision was rendered with no outstanding pertinent cost issues.

(4) When negative program changes occur, the escalation associated with the change is an Economic Change to the extent the previous Economic Changes were based on the deleted effort. When circumstances dictate, a reasonable and rational approximation of the required Economic Change adjustment is acceptable.

b. Program Change Related (PCR) Escalation. PCR escalation is not a variance category. It is the escalation component of all variance categories except Economic and is entered in the Escalation **column** of Format G. PCR escalation is the difference between the current dollar estimate and the base year dollar estimate of the change, at the time the change is made. Once a PCR escalation entry is made, future changes resulting from revision of indices will be reflected in the Economic Change category even though such changes may impact upon a previously calculated PCR escalation. **As** a result, subsequent Economic Changes will **include** a portion that results from the prior changes in the other variance categories. However, the sum of Economic Changes, PCR escalation, and the initial DE provision for escalation will always equal the total escalation contained in the CE.

c. Quantity Change. A change in quantity of an end item of equipment. Ordinarily, categorization as a Quantity Change will be limited to those end items for **which** unit cost reporting is required and for which **cost-quantity curves**" (Format I) have been prepared. All quantity changes **will** be based **on** the original PE or DE cost-quantity curves. The difference between the cost of the quantity change based on the original cost-quantity curves and the cost based on the **CE** cost-quantity curves **will** be assigned to Schedule, Engineering, Estimating, and Other categories, as appropriate. This does not include changes in support items.

(1) The Quantity Change category **is** limited to flyaway costs as defined in DoD Instruction 5000.33 (reference **(c)**). A change in the number of bases or operational sites funded from the military construction appropriation is classified as a Support Change.

(2) When both quantity and schedule change during the same **reporting** period, **it is generally easier to calculate the quantity change on** the revised schedule. If this is done, the PCR escalation amount will include the Schedule Change PCR escalation. When the Schedule Change is calculated, the associated schedule PCR escalation should **be** subtracted from the Quantity Change PCR escalation to avoid a double count.

(3) When the **CE** cost-quantity curves are changed during the same reporting period as quantity is changed, the prior report CE curves should be used in the quantity change calculations. The change to the cost-quantity curves will be made in the Schedule, Engineering, Estimating, or Other categories as appropriate.

d. Schedule Change. A change in a procurement or delivery schedule, completion date or intermediate milestone for development or production. This category includes changes in production rates. Schedule changes in support items are not included.

e. Engineering Change. **An** alteration in the physical **or** functional characteristics of a system or item delivered, to be delivered, or under development, after establishment of such characteristics. This does not include changes in support items.

f. Estimating Change. A change in program cost due to a correction of error in preparing the PE or DE, refinement of a prior CE, or a change in program or cost estimating assumptions and techniques not provided for in the Quantity, Engineering, Schedule, or Support variance categories.

(1) Contract overruns or underruns and incentives are included in Estimating.

(2) Because the SAR is not an original source document, any errors in preparation of the PE or DE as reflected **in** the source document must be corrected in the SAR through the CE and shown as an Estimating

Change. Changes to the SAR PE or DE may be made, with prior ASD (C) approval, only when an error **has** been made (e.g. , typographical) in transferring the baseline estimate from. the source **document** to the SAR (see also paragraph 2-7. f.) .

g. Support Change. Any change in cost, regardless of reason, associated with any work breakdown structure element not included. in **flyaway** cost per DoD Instruction 5000.33 (reference (c)). This will generally include all cost changes associated with training and training equipment, peculiar support equipment, data, operational or site activation, and initial spares and repair parts. Construction costs associated solely with operational or site activation **will** be categorized elsewhere, except that a change in construction requirements (e.g. , number of bases) is a Support Change.

(1) Construction costs associated solely with operational or site activation generally include real estate, site preparation, construction, conversion, utilities, and facilities required to house, service, and launch prime mission equipment to achieve system operational status. Changes to these types of construction-funded activities should be categorized according to the variance category definitions herein except for the Quantity Change category. A change in the number of sites or bases to be converted or built will be classified as a Support Change.

(2) The reason for special **treatment** of operational or site activation construction costs is to keep from losing track of significant changes in those programs in which construction costs are a major component of program acquisition cost.

(3) Construction costs are always precluded from the Quantity Change category. To facilitate analyses where baseline and CE quantity normalization are required, the Remarks column of Format G should identify the amount of Support changes related to changes in the number of sites or bases. This figure should be in base year and escalated dollars and should be retained in the Previous Changes section.

h. Other Changes. A change in program cost for reasons not provided for in other cost variance categories.

(1) Items included in this category include acts of God, work stoppage, federal or state law changes, and other similar unforeseeable events. Unforeseeable events include extraordinary contractual actions under the authority of P.L. 85-804 (reference (f)) , except that formalization of informal commitments should be reflected under the other categories, as appropriate. Other changes are extraordinary occurrences. They are generally characterized as being:

(a) Rare occurrences.

(b) **An** occurrence that would not have been predicted.

(c) **An** occurrence that is not related to the Government's planning, funding, execution, and overall management of the program.

(2) **Only those** things whose nature is not known in advance and which tend to be random are candidates for the Other category. A higher than expected labor settlement is not an unusual or extraordinary occurrence even though it may not have been predicted. Changes **in** budget requests whether occurring in the PPBS cycle or in Congress are not classified as Other Changes even if a prior authorization or appropriation act is changed. Such changes are common, fact-of-life occurrences.

(3) It should be clear that use of the Other category is severely restricted. The temptation to include in this category anything other than the specific items mentioned in paragraph 3-2.h. (1) should be resisted.

3-3 ORDER OF COMPUTATION

a. Cause and Effect. DoD Instruction 7000.3 (reference (a)) requires that variance calculations be made in a specific order. Before discussing the order, and reasons for it, some discussion of the relationships between variance categories and cause and effect will be useful.

(1) Because there are only seven variance categories, the choosing of a category based solely on cause may be difficult. For example, if a budget reduction results in a schedule slip, the cost increase cannot be categorized in terms of its cause, i.e., the budget cut. The only suitable category is Schedule which reflects the effect of the change but not the cause. Similarly, a design change **could** lead to a quantity reduction in at least two ways. First, **if** the cost of the design change is large enough, affordability considerations could lead to the quantity reduction. Second, the design change, regardless of cost, could result in a better system that reduces the number of systems required to meet the expected threat. In either event, it could be argued that the change in quantity should be shown in the Engineering category since the cause of the quantity reduction was the design change.

(2) The preceding discussion makes it clear that categorizing by cause can be difficult or misleading. Sometimes both the cause and the effect may result in the selection of the same variance category. When this is not the case, the analyst should give **priority** to categorizing by effect.

b. Effects of Computation Order. With the above caveat in mind, the first step in preparing the variance table (Format G) is to determine the cost effects of program changes during the reporting period. Once the

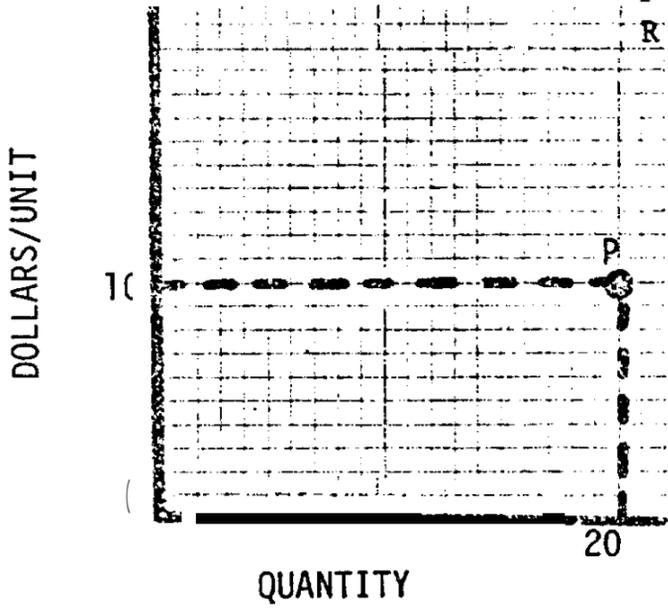
effects have been determined, the "analyst" is faced with the problem of deciding in which order to compute the variance categories. Figures 3-2 and 3-3 show the effect of differing orders of calculation for a simultaneous change in quantity and estimating relationships. Item A in figure. 3-2 shows the program before change. The area under the curve defined by point P represents the total program cost of \$200. The program will be changed by increasing the unit costs from \$10 to \$15 and by decreasing the quantity to be bought from 20 to 15 units. Item B shows the program after incorporating only the Estimating Change. The area under the curve defined by point P' represents \$300. The program has grown from \$200 to \$300, an increase of \$100. The cross-hatched area under the curve shows the change graphically. Similarly, item C shows the calculation of the quantity decrease from 20 to 15 units after having incorporated the Estimating Change. The new program total defined by point P" is now \$225, or \$75 less than the result of B. Hence, the quantity variance is \$-75 as shown by the cross-hatched area. Note that the new program after both quantity and estimating changes is \$225, or \$25 more than the original \$200 program. The \$25 increase is the net result of the \$100 estimating increase and the \$75 quantity decrease. Figure 3-3, items A through C, shows the same program and related changes as in Figure 3-2, but the Quantity Change is calculated before the estimating change. Note that the total net change is the same as in Figure 3-2, but the amounts of the individual variances are different. Table 3-1 summarizes the variance category amounts arrived at by the differing orders of calculation. Similar differences in variance category amounts, depending on order of calculation, can be shown for other combinations of change categories and for other combinations of estimating and quantity increases and decreases. This simple example, however, is sufficient to show the difficulties that will be encountered in analyzing cost growth trends if variances are not computed consistently from quarter to quarter and program to program.

	ORDER OF VARIANCE CALCULATION	
	Estimating First	Quantity First
Estimating Variance	+100	+75
Quantity Variance	-75	-50
Net Program Change	+25	+25

TABLE 3-1

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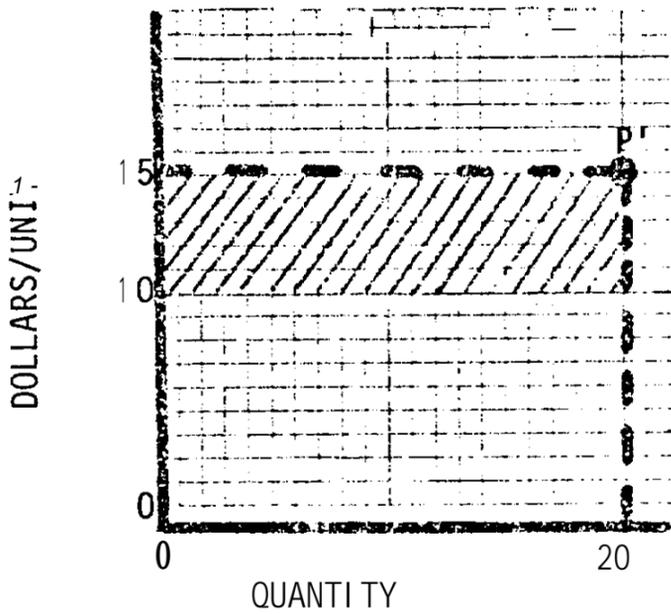
FIGURE 3-2
Multiple Related Changes



A. Previous

Program:

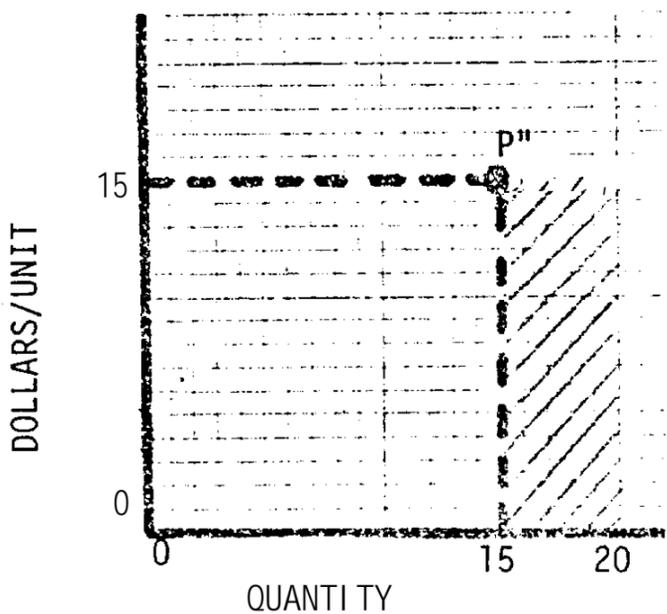
20 units at \$10 each = \$200



B. Estimating Change:

Unit cost increases from \$10 to \$15. New program cost for 20 units at \$15 per unit is \$300. Estimating change variance is

$$\$300 - \$200 = \$+100$$



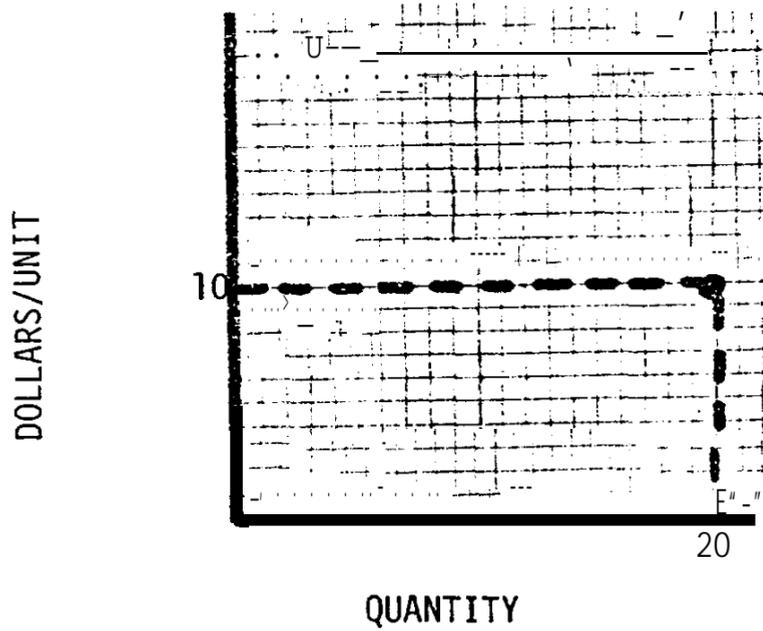
C. Quantity Change:

Quantity decreases from 20 units to 15 units. New program cost for 15 units at \$15 each is \$225. Quantity change variance is

$$\$225 - \$300 = \$-75$$

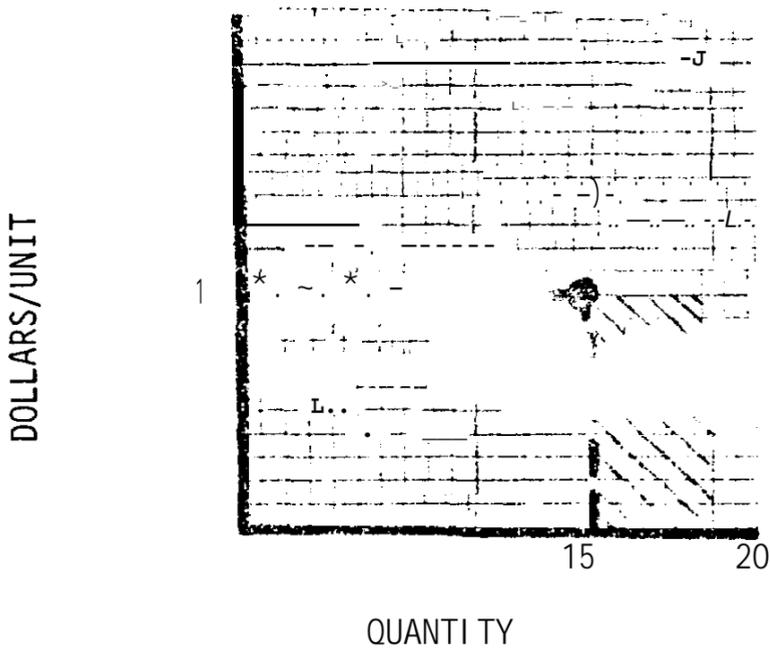
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FIGURE 3-3
Multiple Related Changes



A. Previous Program:

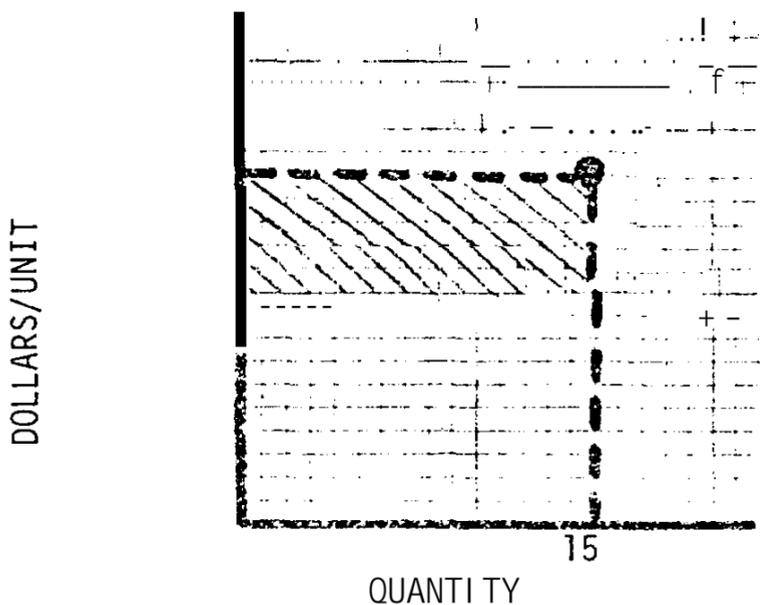
20 units at \$10 each = \$200



B. Quantity Change:

Quantity decreases from 20 units to 15 units. New program cost for 15 at \$10 each is \$150. Quantity change variance is:

$$\$150 - \$200 = \$-50$$



C. Estimating Change:

Unit cost increases from \$10 to \$15. New program cost for 15 units at \$15 each is \$225. Estimating change variance is:

$$\$225 - \$150 = \$+75$$

DE

c. Required Order. Attempting to establish computational order on a case-by-case basis may be subjective" and inconsistent. The problem must be resolved, **however**, since the order" can yield different category values even though the sum total of all variances is unchanged. The computational order established below will ensure consistent computation of Variances and will **permit** comparisons to be made on a comparable basis both within and between programs.

(1) Economic Changes are computed first since" they are due solely to operation of the economy. This requires that Economic changes be derived from the **CE** immediately preceding **the SAR** where the change **is** to be reflected.

(2) Quantity Changes are calculated next because current period engineering and estimating changes may change the cost-quantity curve assumptions. As was noted in paragraph **3-2.c.** (2), an adjustment to **PCR** escalation may be required if Quantity and Schedule are changed in the same report. If Quantity Changes are computed after the Engineering and Estimating categories, the necessary adjustments could become tedious.

(3) Calculating Schedule Changes next completes the definition of the scope of the current program. It also makes the adjustment' of the Quantity PCR escalation straightforward when such adjustment is required.

(4) The next three categories in order of calculation are **Engineering, Estimating, and Other.** This order is established for consistency. There is **no** specific requirement for category integrity, as in the case of Economic and Quantity, and ease of calculations or adjustments is not generally affected by the order of the computation of these categories.

(5) The Support category is computed last because some support **items** are estimated on relationships to **flyaway** costs. For example, spares costs may be based on a percentage of flyaway cost.

d. Exceptions. The preceding order of computation is established to insure consistency in those instances where order can affect the magnitude of the variance category. When the magnitude is independent of order, the analyst may perform the calculations in whatever order is most convenient.

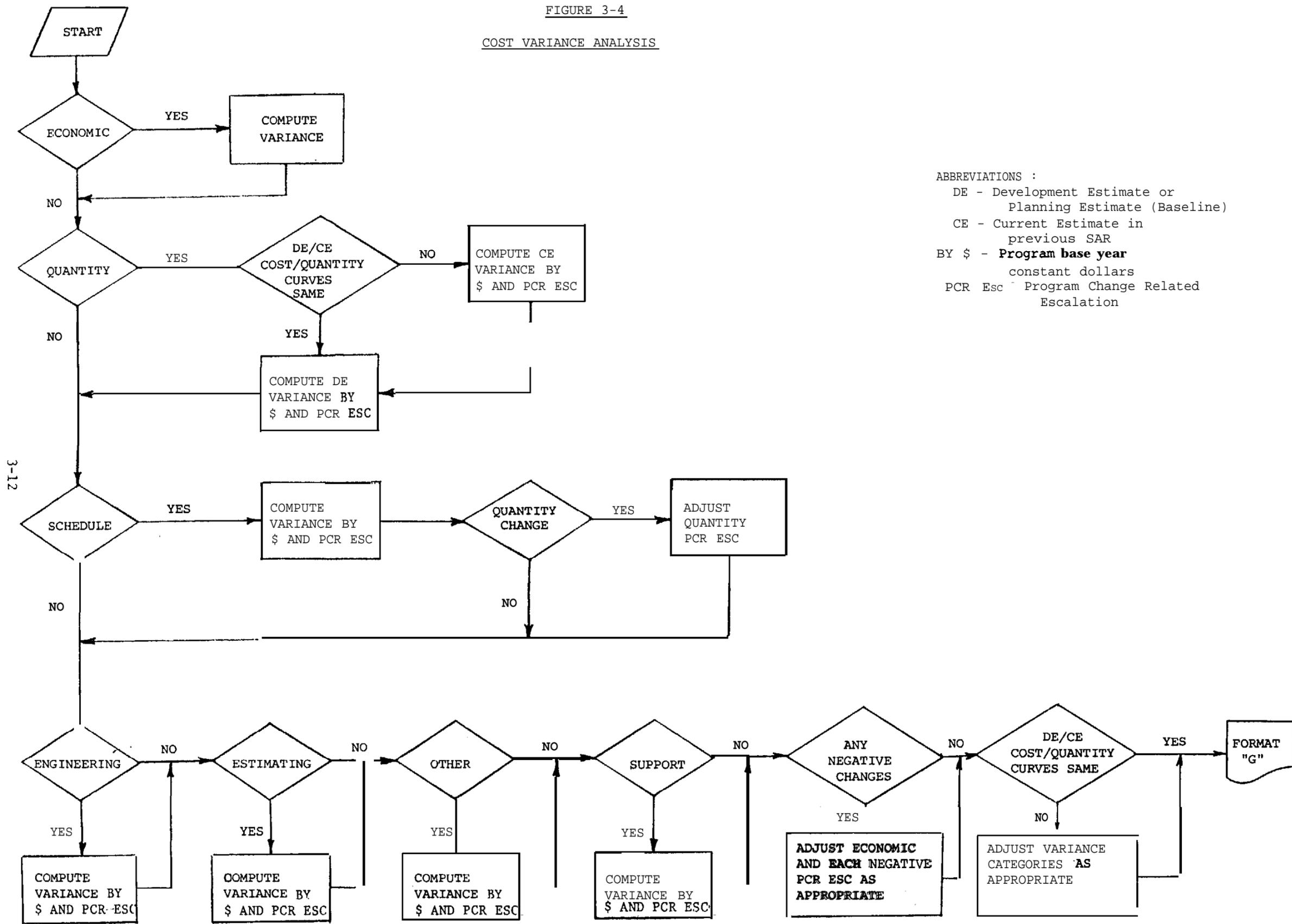
e. Summary. Figure 3-4 is a schematic diagram of the variance calculation requirements described under subsections 3-2 and 3-3. A detailed example of typical variance computations is contained in Appendix A.

3-4. SPECIAL PROBLEMS

a. General. It is not unusual for special circumstances or situations to arise for which DoD Instruction 7000.3 (reference (a)) does not include specific guidance. **While a** complete listing of **all** special situations is not possible, the following list covers the most common situations experienced

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FIGURE 3-4
COST VARIANCE ANALYSIS



ABBREVIATIONS :

- DE - Development Estimate or Planning Estimate (Baseline)
- CE - Current Estimate in previous SAR
- BY \$ - **Program base year** constant dollars
- PCR Esc - Program Change Related Escalation

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to date. When situations arise that are not covered in reference (a) or in this guide, guidance should be sought from the OASD (C) through the appropriate DoD Component channels:

b. Revision to Prior Year's Escalation Estimate. When actual inflation differs from the amount originally projected, as described in subparagraphs 3-2a.(2) and 3-2a.(3), the variance categories may be distorted unless adjustments are made in the Economic Changes category. For example, if actual inflation is less than that previously estimated, the program experiences a real (constant dollar) cost growth unless the program scope is increased or cost estimates are decreased accordingly. On the other hand, if actual inflation is greater than anticipated, the program cannot be completed as planned unless additional funding is obtained. This problem is not serious when the differences between estimated and actual escalation are small. However, when the differences are large, significant distortions in variance categories can arise if estimated escalation is not adjusted to reflect actuals.

(1) For example, if the year 1974 was estimated to require \$100 in 1973 constant dollars and inflation was expected to be 5 percent, total funding would have been \$105 ($\$100 \times 1.05 = \105). If inflation actually occurred at a 10 percent rate, then only \$95.5, in 1973 dollars, was available to the program ($\$105 \div 1.1 = \95.5). Inflation accounted for \$9.5 ($\$105 - \95.5) rather than the \$5 ($\$105 - \100) originally provided for. If all planned work was completed, despite the unexpected increase in inflation, the program must have been overestimated. The Current Changes display should then show:

(a) An Economic Change of \$+5.0 derived from the difference between the \$100 constant FY 73 dollar requirement inflated by the assumed 5 percent rate and the actual 10 percent rate ($\$100 \times 1.1 - \$100 \times 1.05 = \$110 - \$105 = \$5$).

(b) An Estimating Change of \$-4.5 with a PCR escalation figure of \$-0.5. Since only \$105 is available to the program, the \$+5.0 Economic Change must be exactly offset by an Estimating Change which includes PCR escalation at the 10 percent rate. Hence, $\$5.0 \div 1.1 = \4.5 and $\$4.5 \times 0.1 = \0.5 . The sum of the resultant \$4.5 constant dollar amount (FY 73\$) and the \$0.5 PCR escalation is \$5.0 and exactly offsets the Economic Change.

(2) If some effort had to be deferred until the next year because of inflation, the calculations and net variances would be different. Table 3-2 illustrates this problem in current and constant 1973 dollars for 2 years. The table reflects the program before the change. The annual escalation rate is also shown and a single year outlay is assumed.

	<u>1974</u>	<u>1975</u>
Current \$	\$105	\$110.33
FY 73 \$	\$100	\$100
Annual Rate	5%	5%

$$100 \times 1.05 \times 1.05 = 110.3$$

TABLE 3-2

(3) Table 3-3 shows the same 2 years as they would appear a year later after the actuals for 1974 are known. Escalation in 1974 was 10 percent, rather than 5 percent, but only the original \$105 was appropriated.

	<u>1974</u>	<u>1975</u>
Current \$	\$105.0	\$120.7
FY 73 \$	\$95.5	\$104.5
Annual Rate	10%	5%

TABLE 3-3

The 1973 constant dollar amount of \$104.5, required in 1975, is the result of rescheduling the \$4.5 worth of effort not completed in 1974 (\$100 - \$95.5 = \$4.5). The \$120.7 current dollar requirement for 1975 is the result of inflation applied to the FY 73 constant dollar requirement of \$104.5 for the 1975 effort. Since inflation was 10 percent in FY 74, rather than the 5 percent originally assumed and is expected to be 5 percent in FY 75, the figure \$120.7 is the product of \$104.5 X 1.10 X 1.05. The associated Economic and Schedule Change variances are computed by summing the effects for each year as shown in Table 3-4.

	<u>1974</u>	<u>1975</u>	<u>Total Variance</u>
Economic Change	\$+5.0	\$+5.2	\$+10.2
Schedule Change	\$-4.5 (\$-0.5 FCR)	\$+4.5 (\$+0.7 PCR)	\$ + 0.2 PCR
Net Change			<u>\$+10.4</u>

TABLE 3-4

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(a) The total variance (\$10.4) is the result of subtracting the original current dollar estimate for 1975 of \$110.3 (Table 3-2). from the revised figure of \$120.7 (Table 3-3) .

(b) The net change for the year 1974 is 0 since the total funding has been held at \$105. The Economic Change for 1974 is computed first in accordance with the order established in paragraph, 3-3.c. Computing the effects due solely to the economy (adjusting the previously assumed 5 percent rate to the 10 percent actual) results in $\$100 \times 1.10 = \110 . Since our original current dollar estimate for 1974 was \$105, the Economic change is \$+5 ($\$110 - \105). Now , since only \$105 is. received, \$5 worth of effort must be rescheduled. Note that since the \$5 to be rescheduled is the difference between two current dollar figures, it must itself be in current dollars. Since the inflation rate is 10 percent, the constant dollar value of the work being rescheduled is $\$5.0 \div 1.1$ or \$4.5. The difference between the \$5.0 in current dollars and the \$4.5 constant dollar value is \$0.5 and is the PCR escalation.

(c) The Economic Change for 1975 must be computed solely on the basis of inflation. This means that the work being rescheduled from 1974 is not involved in this calculation. The current dollar figure originally estimated for 1975 was \$110.3 based on a 5 percent rate assumption for 1974 and 1975 ($\$100 \times 1.05 \times 1.05 = \110.3 from Table 3-2). Using the revised 1974 rate of 10 percent yields \$115.5 ($\$100 \times 1.1 \times 1.05$). The difference between the \$115.5 and the \$110.3 is \$+5.2 and is shown in Table 3-4 as the Economic Change for 1975. The Schedule Change for 1975 is determined by moving the \$4.5 constant dollar figure from 1974 to 1975 and escalating ($\$4.5 \times 1.10 \times 1.05 = \5.2 ; $\$5.2 - \$4.5 = \$0.7$ PCR).

(d) The sum of the Economic components is \$+10.2 ($\$5.0 + \5.2). The Schedule sum is +0.2 ($\$-4.5 - \$0.5 + \$4.5 + \0.7). The total Economic and Schedule Change is, \$10.4 ($\$10.2 + \0.2) and is in agreement with subparagraph 3-4.b. (3) (a).

(e) Notice that the Schedule Change in constant dollars is 0 but there is a \$0.2 Schedule increase due to PCR escalation caused by the net escalation impact of reducing 1974 effort by \$4.5 and moving it to 1975. Had there been fixed or semivariable charges which differed between 1974 and 1975, some constant dollar growth would have been experienced.

(f) If no prior year adjustment had been made to reflect actual escalation experienced in 1974, the total Economic variance would have been only \$5.2 (the 1975 Economic Change) rather than the \$10.2 shown in Table 3-4. Some other category, probably Estimating or Schedule, would have shown an increase of \$4.5 plus \$0.7 PCR escalation. This would have understated the true impact of inflation and substituted a real cost growth. In general, adjustment of prior year escalation, without a change in scope of work or a change in the total program estimate, will require an Economic Change and a change in the Schedule or Estimating category, or both.

c. Escalation and Fixed Price 'Contracts. Escalation associated with firm fixed price **(FFP) contracts should not be** changed after the contract has been awarded unless the escalation change is associated with a contract change. Since the contract value does not change with subsequent changes **in** actual or predicted escalation, there **should** be no change reflected in the SAR. Escalation adjustments for costs associated with fixed price escalation **(FPE)** contracts should be made to reflect those escalation adjustments that have been accepted by the government. **Some** judgment should be exercised in applying these rules. If FFP and **FPE** contracts are small relative to the **total remaining** program, separate escalation adjustments need not be made if the effort required is great and the **increase in** accuracy is negligible.

d. Claims. When a claim is reflected in the SAR, the figure should be treated as a constant dollar relative to the year in which the work subject to claim was done. Therefore, the constant dollar value is not necessarily associated with the year **in** which the claim is settled or funded. **In** addition, the claim amount reflected in the **SAR** should be assigned to variance categories in accordance with the basis of the claim and consistent with SAR variance category definitions.. For example, **if** the basis for the claim is a design change, the variance is an Engineering Change. If the basis is schedule slip and abnormal inflation, the appropriate amounts should be assigned to the Economic and Schedule categories. If the claim is settled for an amount other than that originally submitted and a specific breakdown is not known, it should be allocated in the **SAR in** proportion to the original claim amount with adjustments for any costs specifically disallowed.