

COST or PRICE ANALYSIS

The objective of cost or price analysis is to ensure a **fair and reasonable estimated cost** (in the case of cost reimbursement types of contracts) **or price** (in the case of fixed price types of contracts). The subcontract file will contain written descriptions of the type of analysis performed, the results and the negotiated price. If subcontractor is subject to Government audit of its rates and factors used in the quotation, a copy of the audit report will be requested and inserted in the file. Copies of any other data affecting the price will be included such as a copy of the negotiated indirect cost agreement. Either or both of the following methods may be utilized:

1. **COST ANALYSIS** – is the review and evaluation of each element of a cost estimate and proposed profit or fee to determine reasonableness, allocability and allowability. Cost analysis should answer the following questions for the review and evaluation of any given cost element. Recommended for purchases > \$100,000. Required for purchases > \$500,000 along with a Certificate of Current Cost or Pricing Data (FAR 15.804-4)
 - Is the cost necessary to perform the work and allocable to the work?
 - Is the cost necessary to operate the business?
 - Does the offeror follow applicable regulations?
 - Does the offeror have an acceptable accounting procedure? i.e. consistent with OMB A-21 or A-122
 - Is the cost allowable in accordance with sponsor guidelines?
 - Would a prudent business person take this action in a competitive business environment?
 - Is the profit or fee negotiated, if any, reasonable for the degree of risk involved in performance of the work and does not exceed the sponsor's limitations.

2. **PRICE ANALYSIS** – is the process of examining and evaluating a proposed price without evaluation of its separate cost elements and proposed profit. Generally, price analysis should be used under the following circumstances:
 - Procurements expected to be less than \$100,000
 - Where adequate price competition exists and award can be made on the basis of price alone.
 - Comparison with competitive published prices, or published market prices or other indices for same or similar work under similar conditions.
 - Comparison of proposed prices with independent Government estimates.
 - Application of a rough yardstick (i.e., \$ per unit) to highlight any significant inconsistencies that warrant additional inquiries.
 - When prices are set by law or regulation.
 - When neither competition or published prices are available, a statement to file supporting why the price to be paid is fair and reasonable. This documentation may include:
 - () a price increase over an amount previously paid for a similar item, or support in the form of professional journals, trade magazines, or government indices;
 - () favorable price comparisons with prices paid by other institutions of government agencies for like or similar items. This is particularly valuable if a price or cost analysis has been done by the other agencies or institutions;
 - () favorable price comparison with a cost estimate developed independently by the buyer after consultation with other professional staff within the University.