

APPENDIX 12 – GUIDELINES FOR CONDUCTING COST ANALYSIS

A cost or price analysis must be performed in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation. An independent estimate must be made before receiving bids or proposals.

- When evaluating competitive proposals;
- When there is a sole source (or non-competitive proposal);
- When after soliciting bids, only one bid is received, the PHA does not have sufficient data on costs to establish price reasonableness (such as prior purchases of similar nature), and the PHA is considering making an award to the sole bidder;
- When negotiating modifications to contracts that impact the price or estimated cost;
- When terminating a contract and the contractor is entitled to payment of reasonable costs incurred as a result of termination; or
- When awarding a cost-reimbursement contract.

The following lists the basic steps in conducting a cost analysis (please refer to Chapter 10 for more when a cost analysis is required):

- A. Verify cost and price information, including:
 - 1) The necessity for, and reasonableness of, the proposed cost;
 - 2) Technical evaluation or appraisal of the proposed direct cost elements; and
 - 3) Application of audited or pre-negotiated indirect cost rates, direct labor rates, etc.
- B. Evaluate the effect of the offeror/contractor's current practices on future costs;
- C. Compare costs proposed by the offeror/contractor with the following:
 - 1) Actual costs previously incurred by the same firm;
 - 2) Previous cost estimates from the same firm or other firms for the same or similar items;
 - 3) The methodology to be used to perform the work (are the costs consistent with the technical approach being proposed?); or
 - 4) The independent cost estimate (ICE).
- D. Verify that the offeror/contractor's cost proposal complies with the appropriate cost principles; and
- E. Verify that costs are allowable, allocable, and reasonable.

The major categories of costs are:

- A. Direct Costs, which include:
 - 1) Direct Labor (personnel)
 - 2) Equipment
 - 3) Supplies
 - 4) Travel and Per Diem
 - 5) Subcontractors
 - 6) Other Direct Costs

- B. Indirect Costs, which include:
 - 1) Overhead
 - 2) General and Administrative Expenses
 - 3) Profit (or Fee)

In the process of analyzing costs, profit should be analyzed separately. In analyzing profit, consideration should be given to:

- A. Complexity of the work to be performed;
- B. Contractor’s risk in performing the contract;
- C. Contractor’s investment in the contracted effort;
- D. Amount of subcontracting;
- E. Contractor’s record of past performance; and
- F. Industry profit rates in the general area for similar work.

Remember: The objective is to establish overall cost reasonableness and not individual components.

COST PROPOSAL	COST PRINCIPLE
For-profit or commercial organization	FAR 48 CFR Chapter 1, Subpart 31.2
State or local governments	2 CFR 200
Private, non-profit organizations	2 CFR 200
Educational institutions	2 CFR 200