

<i>Cost or Price Analysis</i>	PROCEDURE	
	Document Number:	FRS-PR-021
	Version Number:	04

1.0 Purpose:

To define the general rules and procedures for performing a cost or price analysis.

2.0 Scope:

This Procedure applies to all departments and all vendors participating in the established VTA procurement process.

3.0 Responsibilities:

It is the responsibility of the Purchasing and Materials Manager to draft and obtain approval of this procedure to assure organizational understanding and compliance with Policy FRS-PL-021. Additionally the Purchasing and Materials Manager will have the responsibility for periodic review and proposing updates to the Policy and Procedure.

4.0 Procedure:

It is the policy of VTA (FRS-PL-021) that some form of cost or price analysis be performed in connection with every procurement action, including contract modifications.

A cost or price analysis shall be performed to assure that prices paid are fair and reasonable.

A cost or price analysis will be done when the bid or proposed price is more or less than 30% of the Independent Cost Estimate along with a written determination of fair and reasonable pricing.

For federally funded procurements, VTA will use federal cost principles in the evaluation of proposed contractor costs.

- 4.1 Price Analysis: This is an evaluation of the proposed price that does not involve an in-depth evaluation of all of the separate cost elements and the profit factors that comprise a potential contractor's price proposal. Price analysis is a broad term that includes whatever actions the Purchasing Agent takes to reach a price decision. These actions should include not less than two of the following approaches.

4.1.1 A comparison of competitive price quotations.

4.1.2 A comparison of prior quotations and contract prices with current quotations for the same or similar items.

4.1.3 The use of rough measurements such as dollar per pound, per horsepower or other units to point up apparent gross inconsistencies.

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- 4.1.4 A comparison of prices from catalogs, published price lists or market prices when the items purchased are commercial in nature and are sold in substantial quantities to the general public.
- 4.1.5 A comparison of established market prices, such as newspaper, radio or television advertisements when the prices are established in the usual course of business between parties free to bargain.
- 4.1.6 A comparison of proposed prices with independent estimates.
- 4.1.7 When a Price Analysis has been completed, a written statement of reasonableness must be included in the file. This statement can be a comparison to the Independent Cost Estimate (ICE) or a comparison of the bids to each other.
- 4.2 Cost Analysis: This is a more detailed evaluation of the cost elements in the potential contractor's offer to perform. It is conducted to form an opinion as to the degree to which the Contractor's proposed costs represent what his or her performance should cost. A cost analysis is generally conducted to determine whether the Contractor is applying sound management in proposing the application of resources to the contracted effort and whether costs are proper, allowable, and allocable. Cost analysis is a more detailed review of an offeror's proposal than a price analysis. It involves an in-depth look at the contractor's cost and pricing data and of the judgmental factors applied in projecting from the data to the estimated costs. The objective is to form an opinion as to the degree to which the proposed costs represent what performance of the contract should cost, assuming reasonable economy and efficiency.

In conducting a cost analysis, it is not enough simply to examine a Contractor's proposed figures on the number of hours his staff will work, the amounts and cost of materials, and the rates of labor and overhead from accounting records. And, it is not enough to project the actual cost experience and call it the estimate of future costs.

Contract cost analysis is the element-by-element examination of the estimated or actual cost of performing a contract, the analysis of cost accounting data furnished by an offeror. It involves:

- 4.2.1 The verification of cost data
- 4.2.2 The evaluation of specific cost elements
- 4.2.3 The projection of the cost data to determine its effect on prices
- 4.2.4 A cost analysis looks into such factors as:
 - 4.2.4.1 The necessity for certain costs

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- 4.2.4.2 The reasonableness of amounts estimated for necessary costs
- 4.2.4.3 The basis for allocating overhead costs
- 4.2.4.4 Allowances for contingencies
- 4.2.4.5 The appropriateness of allocations of particular overhead costs to the contract; and
- 4.2.4.6 The reasonableness of the profit factor.

Cost analysis is appropriate under professional consulting and A/E services contracts when the offeror is required to submit the elements of his estimated costs. Cost analysis may also be required when adequate price competition is lacking, and for non-competitive procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. (See FRS-PL-030.3 and FRS-PR-030.3 for reference)

- 4.3 In each case, an independent cost estimate shall be done before receiving bids or proposals.

5.0 Definitions:
Not Applicable.

6.0 Records:
Procurement & Contracts will have the responsibility to maintain all records of Cost or Price analyses for periods required by law.

7.0 Appendices:
Not Applicable.




8.0 Training Requirements:
The Contracts and Materials Management Department will have the responsibility for training VTA staff for compliance with this Procedure.

9.0 Summary of Changes:
The addition of the requirement for a written statement of reasonableness in Section 3.1.7. Reformatting the Procedure to a new format and periodic review of Policies. Added wording to Sec. 4.0 for cost price analysis and federal cost principles.

10.0 Approval Information:

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1/20/15
Date Signed

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