SECTION 7: ACQUISITION PROCEDURES

SUBJECT: PROCUREMENT METHODS, CONTRACTOR SELECTION AND PRICE VALIDATION
Procedure 7.3.3

POLICY: The Buyer is responsible for determining that the purchase price is reasonable and offers the lowest cost consistent with the best interests of the University. Competition must be secured for all purchases in excess of the direct purchase threshold\(^1\), unless the purchase is subject to an exception to competitive procurement. For purchases of this nature use the Sole Source procedure\(^2\). Competition may be secured for any purchase, regardless of value, if competition would be to the University's advantage.

The University of Washington recognizes its economic responsibility as a public institution to provide fair and open opportunities to all members of the business community and especially to Small/Disadvantaged Businesses and MWBE business firms in support of its educational, research and public service activities.\(^3\)

PROCEDURE
The various types of procurements and the method by which the price of each type is validated (i.e. determined to be fair and reasonable) are listed below. Competitive procurement or purchasing from master contracts or price agreements should be used whenever possible. If competition cannot be secured and there are no master agreements available, one of the other options may be utilized.

PROCUREMENT TYPES

1. Direct Buy Purchases
Purchases under the Direct Buy threshold\(^4\) (currently $10,000) may be made without competition or sole source justification. Although direct buy purchases are not subject to state competition requirements or state oversight, these purchases should still be made with careful consideration of the cost to the University and the alternatives available.

2. Competition
Whenever possible, purchases shall be based on competition. Competition is defined as securing bids, quotes, or proposals from a sufficient number of contractors, in accordance with a solicitation from the Buyer, to assure a competitive, and therefore reasonable price. (See policies 2.1, 7.3.5, and 7.3.7).

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\(^1\) Currently $10,000, see Procurement Policy #2.1
\(^2\) See Procurement Policy #7.3.8
\(^3\) See policies 6.1, 6.2, 7.3.5, and 7.3.7
\(^4\) RCW 28B.10.029
Policy 7.3.3 Last Rev 9/26/14
3. **Master Contracts or Price Agreements**
   Purchases against a master contract or price agreement (for orders under $10,000), either created by the University, other Public Agency, or Group Purchasing Organization, satisfy the requirement that the University validate the price paid. The contract or agreement number must be cited on the requisition for documentation.

4. **Special Facilities, Services and/or Market Conditions**
   This type of purchase is one in which there may be more than one source of supply for an item, but for the purposes of a given purchase, direct negotiation is in the best interest of the University of Washington. Review and approval must be obtained prior to using Special Market Conditions as a justification for making a purchase by direct negotiation. The same requirement for price validation is required for this type of purchase as for sole source.

5. **Federal Supply Schedule**
   The U.S. General Services Administration (GSA) has arranged and published price schedules with some contractors. The University may use Schedules 70 (Information Technology) and 84 (Law Enforcement) as cooperative purchasing agreements.

6. **Medical/Surgical/Dental**
   When patient care is involved, a particular brand may be prescribed by the physician if deemed to be in the patient’s best interests. The same requirement for price validation is required for this type of purchase as for sole source.

7. **Emergency Purchases**
   On occasion, it may be necessary to make an emergency purchase in response to unforeseen circumstances beyond the control of the University. These circumstances must present an immediate and extreme threat to the proper performance of essential functions and/or be expected to result in excessive loss or damage to property, bodily injury or loss of life. (See policy 7.3.11).

   All emergency purchases must be made in accordance with DES Policy #125-00 and reported using the Washington State Department of Enterprise Services (DES) Sole Source Contract Database (SSCD) and on a University of Washington website (or summary information including instructions for obtaining a copy of the emergency contract) within 3 business days of entering into the emergency contract.

8. **Sole Source Purchases**
   Purchases which are clearly and legitimately limited to a single source of supply may be

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5 This type of non-competitive procurement is permitted by RCW 39.26.125(4)
6 Section 211 of the E-Government Act of 2002 (Public Law 107-347)
7 RCW 39.26.125(1)

Policy 7.3.3 Last Rev 9/26/14
acquired through direct negotiation rather than through the competitive process. (See policy 7.3.8.)

9. **Funding-Source-Mandated Contractors Necessary for the Conduct of Collaborative Research**
   Where a specific contractor is mandated by a necessary funding source for collaborative research, competitive solicitation is not required. Retain documentation from the funding source regarding the requirement of a particular contractor (such as a copy of the federal grant or contract naming the required contractor).  

10. **Other Exceptions to Competitive Procurement**
    Although encountered less commonly, the following types of contracts are also exempt from competition:
    
    a. Client services contracts;
    b. Contracts where a competitive solicitation process would not be appropriate or cost-effective;
    c. Certain off-contract purchases of Washington grown food;
    d. Contracts awarded to companies that furnish a services where the tariff is established by the utilities and transportation commission or other public entity;
    e. Intergovernmental agreements;
    f. Contracts for architectural engineering services governed by Chapter 39.80 RCW;
    g. Contracts for expert witnesses for litigation; and
    h. Contracts for bank supervision under RCW 30.38.040.

**PRICE VALIDATION AND PRICE REASONABLENESS**
Price validation is the method(s) by which the University determines that the price paid to a contractor is fair and reasonable for the goods and/or services. Price Reasonableness is the establishment that the price paid for the goods and/or services is reasonable. Methods of Price Validation vary based upon the procurement method used, the dollar value of the purchase, and the goods and/or services being procured. Price Validation typically falls into two broad categories: Price analysis or Cost analysis.

The goal of price validation to establish price reasonableness is to ensure that the University is receiving the fair market value for funds spent with a contractor. A price is reasonable “if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the

8 RCW 39.26.125(11)
9 RCW 39.26.125
10 Typically, procurements which are more expensive; and/or involve less competition; and/or involve products and/or services that are neither available from many contractors nor standardized or commoditized will require more extensive price validation.
conduct of a competitive business.” The following types of price validation may be used as appropriate (or required) and are listed from simplest to most sophisticated:

a. Price Competition (appropriate at any dollar amount)
   i. No price/cost analysis required

b. Price Warranty Checklist (appropriate under $25,000/unit and $250,000/total price)
   i. Include with contract
   ii. Relatively simple method of establishing price reasonableness
   iii. Require supplier to warrant that the price charged is based on a published price for a commercial items sold in substantial quantities to the general public or provide a current catalog/published price list

c. Price Analysis (appropriate for most commercial item purchases)
   i. Price Comparison
      1. Historical Prices
      2. Market Prices
      3. Comparison to Similar Items
      4. Other Contractors’ Publicly Listed Prices
   ii. Development of an independent price estimate

d. Cost Analysis (appropriate for items where price validation/comparison is not possible)
   i. Establish that amount paid is reasonable based on analysis of supplier costs
   ii. See Policy 7.4.2 for detailed procedures and when Cost Analysis is required

Additionally, the table on the next page summarizes the various methods of establishing price reasonableness and the dollar thresholds at which each of the above methods for establishing price reasonableness are appropriate.

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11 FAR 31.201-3
Policy 7.3.3 Last Rev 9/26/14
<table>
<thead>
<tr>
<th>Dollar Amount</th>
<th>Appropriate Method of Price Justification</th>
<th>Description</th>
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<tbody>
<tr>
<td>&lt;$10,000</td>
<td>No price justification is legally required. Purchasers should be aware of market prices to ensure the price paid is fair and reasonable</td>
<td>Purchases under the direct-buy limit are not subject to laws requiring competition/establishment of price reasonableness requirements</td>
</tr>
<tr>
<td>Commercial Item</td>
<td>Price warranty checklist</td>
<td>The price warranty checklist serves as an informal method of establishing price reasonableness for purchases in this price range</td>
</tr>
<tr>
<td>&lt;$25,000/Unit and &lt;$250,000 Total</td>
<td>Price Analysis</td>
<td>Price analysis is the evaluation of a proposed price (through comparison to historical prices, publicly available competitor prices, etc) to determine if it is fair and reasonable</td>
</tr>
<tr>
<td>Commercial item &gt;$25,000</td>
<td>Cost Analysis</td>
<td>When price analysis is impossible, perform a cost analysis. Cost analysis is the evaluation of the separate items (cost elements—labor, materials, profit, etc) that make up the price to determine if the costs are reasonable</td>
</tr>
<tr>
<td>Non-Commercial Item &gt;$25,000</td>
<td>Cost Analysis, Certificate of Current Cost and/or Pricing Data and Negotiation Memorandum</td>
<td>A cost analysis is described above. UW must also receive a certificate of current cost or pricing data, and a signed negotiation memorandum (see Policy 7.4.2) according to the Federal Acquisition Regulations</td>
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