

SECTION 7: ACQUISITION PROCEDURES

SUBJECT: COST ANALYSIS PROCEDURE 7.4.2

POLICY:

A cost analysis is required for any negotiated (non-competitive) contract procurement on behalf of any University program, if:

- 1) A price analysis cannot be performed, OR
- 2) The item or service being procured is a non-commercial item, and the order exceeds \$700,000, and the source of funding is a federal contract.

For procurements utilizing non-federal funds, cost analysis is one method of price verification that may be used to justify the price to be paid by the University.

Cost analysis is defined as the process of review and evaluation of the individual cost elements and proposed profits of the vendor's cost or price data supporting the quoted price. A "non-commercial item" is defined as follows: an item that is of a type not customarily used for non-governmental purposes and that is not sold or offered to the general public. (See FAR Section 2.101 for a definition of a commercial item). The following steps are to be completed to satisfy documentation requirements.

The definition of a negotiated contract is any contract that is a sole source (no competition) or is awarded as the result of a competitive solicitation in which no competition (only 1 bid) was received.

PROCEDURES:

1. The Buyer will request a written proposal from the vendor when a negotiated contract requires cost analysis.
2. The Buyer shall require the vendor to furnish a detailed breakdown of the cost elements of the proposal. This breakdown may also be called "Cost or Pricing Data" (See Attachment #1 for a sample of such data).
3. The Buyer must then analyze the data submitted by the vendor to determine that the cost for the end product or service is in fact reasonable, considering all elements of the cost. These elements are made up of both direct costs and indirect costs. "Direct costs" are costs that are directly related to producing something for a particular contract. Some examples of direct costs are: labor costs, materials costs, special tooling, test equipment and packaging. "Indirect costs" are costs that are only partially related to producing something for a particular contract and are frequently expressed in terms of percentages. Some

examples of indirect costs are: manufacturing overhead, general and administrative expenses, royalties and profit. As part of the analysis, the Buyer may wish to confer with other professional University staff in order to determine reasonableness of the various cost elements. Other ways of analyzing a vendor's proposed cost elements for reasonableness include:

- a. Obtaining copies of competitive quotations or catalog price lists for materials from the vendor.
 - b. Performing in-house cost estimates of supplies, services or overhead rates. Some examples would be: obtain in-house rates for engineering services from the Applied Physics Lab or the School of Oceanography, or machining rates from one of the machine shops on campus.
 - c. Comparing vendor's indirect costs (such as overhead, general & administrative expenses and profit) with rates of previously accepted proposals from other vendors.
 - d. Obtaining evidence from the vendor that they have been recently audited by the DCAA (Defense Contract Auditing Agency).
4. If, after a complete analysis of all costs and facts, the Buyer is satisfied that the cost to be paid is reasonable, then a memo in the requisition file to that effect, in addition to all cost data submitted by the vendor, will satisfy the documentation requirements for price/cost reasonableness.
 5. In the event that the vendor refuses to furnish cost data, the Buyer should consult with their supervisor for direction as to how to proceed.
 - a. For federally funded contracts over \$700,000, or the updated threshold identified in [FAR Subpart 15.4](#), the University may seek assistance from its ACO (Administrative Contracting Officer of the funding agency) including requesting a governmental assist audit if necessary.

REQUIREMENT FOR CERTIFICATE OF CURRENT COST OR PRICING DATA under the TRUTH IN NEGOTIATIONS ACT (TINA)

In the event that a sole source, federal contract-funded procurement for a non-commercial item exceeds \$700,000¹ (or the updated threshold identified in FAR Subpart 15.4), in addition to the requirement for cost/price data and a cost analysis, the vendor shall be required to complete a "Certificate of Current Cost or Pricing Data." A form for completing a Certificate of Current Cost or Pricing Data is included as Attachment #2². This executed certificate must be included in the contract file.

¹ Note: In accordance with 10 USC 2306a and 41 USC 254b, effective on October 1 of each year that is divisible by 5, each amount set forth in this paragraph shall be adjusted to the amount that is equal to the fiscal year 1994 constant dollar value of the amount set forth. Any amount, as so adjusted, that is not evenly divisible by \$50,000 shall be rounded to the nearest multiple of \$50,000. In the case of an amount that is evenly divisible by \$25,000 but not evenly divisible by \$50,000, the amount shall be rounded to the next higher multiple of \$50,000.

² Language of Attachment #2 as required by FAR 15.404-3.

ATTACHMENT #1 Example of Vendor's Pricing Proposal

1a	Direct Materials		
	Purchased Parts:		\$ 20,000.00
		\$	
	Servo-motor	5,000.00	
		\$	
	Actuator	10,000.00	
		\$	
	Electronics	2,000.00	
		\$	
	Computer	3,000.00	
	Subcontracted Items		\$ 25,000.00
		\$	
	S.S. Enclosure	25,000.00	
	Raw Materials		\$ 8,000.00
		\$	
	S.S. Tubing	4,000.00	
		\$	
	Aluminum Sheet	4,000.00	
	<u>Total Direct Materials</u>		\$ 53,000.00
	Material Overhead (5% X		\$
1b	\$53,000)		2,650.00
			\$
2a	Direct Engineering Labor		15,000.00
	Engineering Overhead		\$
2b	(12%X\$15,000)		1,800.00
			\$
3a	Direct Manufacturing Labor		45,000.00
			\$
3b	Manufacturing Overhead (80%X\$45,000)		36,000.00
4	Other Direct Costs		
		\$	
	Special Tooling	7,500.00	
		\$	
	Special Test Equipment	5,000.00	
		\$	
	Packaging	2,500.00	
	<u>Total Other Direct Costs</u>		\$ 15,000.00
			\$
	Subtotal		168,450.00
	General & Administrative Expenses		\$
5	(18%X\$168,450)		30,321.00
			\$
	<u>Total Estimated Cost</u>		198,771.00

	Profit or		\$
6	Fee	(12%X\$198,771)	23,852.52
			\$
	<u>Total Price</u>		222,623.52

ATTACHMENT #2

Certificate of Current Cost or Pricing Data

This is to certify that, to the best of my knowledge and belief, the cost or pricing data (as defined in section 2.101 of the Federal Acquisition Regulation (FAR) and required under FAR subsection 15.403-4) submitted, either actually or by specific identification in writing, to the Contracting Officer or to the Contracting Officer's representative in support of _____ * are accurate, complete, and current as of _____. ** This

certification includes the cost or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

Firm _____ Signature _____

Name _____ Title _____

Date of execution*** _____

* Identify the proposal, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g., RFP No.).

** Insert the day, month, and year when price negotiations were concluded and price agreement was reached or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.

*** Insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.