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CHAPTER 24. Cost Principles and Proposal Analysis

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24.1 Policy

The Contracting Officer shall conduct a price or cost analysis in order to establish that the amount for the contract action is fair and reasonable prior to awarding a contract or contract modification.

24.2 Price Analysis

Price analysis shall be performed for all contract actions. It involves the evaluation of a proposed price without evaluating its separate cost elements and profit.

In performing price analysis, the total price proposed by the offeror will be compared against the Authority's independent estimate, and the price submitted by other offerors in response to the same solicitation.

If price analysis produces significant variations in pricing that cannot be explained or reconciled, cost analysis may be performed.

The Contracting Officer will select one or more of the following techniques to perform price analysis:

1. Comparison of proposed prices with independent Authority estimate
2. Comparison of proposed prices received in response to the solicitation
3. Comparison of prior proposed prices and contract prices with current proposed prices for the same or similar end items
4. Application of rough yardsticks to highlight significant inconsistencies that warrant additional pricing inquiry
5. Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements

24.3 Cost Analysis

Cost analysis shall be performed for all non-competitive procurements, except for purchases where price reasonableness can be established on the basis of a catalog or market price of commercial items sold in substantial quantities to the general public or on the basis of prices set by law or regulation.

Cost analysis is the review and evaluation of the separate direct and indirect cost elements and profit and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency.

The Contracting Officer will select one or more of the following techniques, to perform cost analysis for prospective work:

1. Comparison of individual price elements with the Authority's independent estimate. The Authority's estimate may be in the form of "roundtable estimate" by subject matter experts, comparison estimate "with current or past purchases, or "detailed estimate" addressing components, processes, labor, materials, equipment and indirect costs.
2. Identification and reconciliation of differences between proposed prices and Authority estimate pricing, such as scope variances, pricing of the same or similar items, consideration of unique, or special situations and the like.
3. Other recent proposals received in response to a similar Authority request.

4. Previous proposal(s) from the offeror or from other offerors for the same or similar items.
5. Prices paid recently by the Authority, or costs incurred by the offeror for performing similar work.
6. Review of the contractor's estimating methods, subcontractor quotes, assumptions and projections.
7. Any other techniques that are determined to be appropriate for the situation.

In those cases where the work has been performed prior to establishing the equitable adjustment, the Contracting Officer will determine the fairness and reasonableness of the price on the basis of incurred costs, if the contractor has segregated such costs. In addition, and if it is determined necessary, any of the techniques identified above may be used to validate the fairness and reasonableness of the proposal,

24.4 Profit Analysis

The Contracting Officer should consider a structured approach to analyzing profit in terms of common factors. Some of the common factors are:

1. Contract cost risk – The contractor assumes the greatest cost risk in a closely priced firm-fixed-price contract under which it agrees to perform a complex undertaking on time and at a predetermined price. The contractor assumes the least cost risk in a cost-plus-fixed-fee level-of-effort contract, under which it is reimbursed those costs determined to be allocable and allowable, plus the fixed fee.
2. Contractor effort – Greater profit opportunity should be provided under contracts requiring a high degree of professional and managerial skill and to prospective contractors whose skills, facilities, and technical assets can be expected to lead to efficient and economical contract performance.
3. Extent of Subcontracting – The larger the portion of the work that the contractor will perform with its own forces, the greater the opportunity for profit should be considered.
4. Capital investments – This factor takes into account the contribution of contractor investments to efficient and economical contract performance.
5. Other factors may be used as necessary and appropriate.

The goal for profit allowance for fixed price contracts should be ten percent or less, with a maximum allowance of twelve percent. For cost reimbursement contracts, the maximum allowance should be limited to eight percent.

24.5 Contract Audit as a Pricing Aid

The Contracting Officer may request a contract audit as a pricing aid to review, examine, and validate all financial and factual elements submitted in connection with a proposal and/or claim.