

PROCUREMENT of CONTRACTED SERVICES

Cost and Price Analysis Explained

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With concerns about cost-cutting and budget constraints at an all-time high, workforce development professionals have more reasons than ever to ensure public funds are spent wisely—particularly since demand for services is growing. It is essential that your organization's cost and price analysis process be transparent, accurate, and clear in order to hold-up under public scrutiny.

Evaluating submitted line-item budgets for contracted services is one of the most important administrative functions workforce development procurement staffers perform. The processes associated with this analysis help ensure maximum value for dollars spent and that costs are allowable, reasonable, necessary, and justified. They're also an effective tool for assessing proposers' understanding of the scope of work to be performed. Ultimately, procurement staffers are tasked with the responsibility of documenting the basis of their determination that the costs detailed are fair and reasonable.

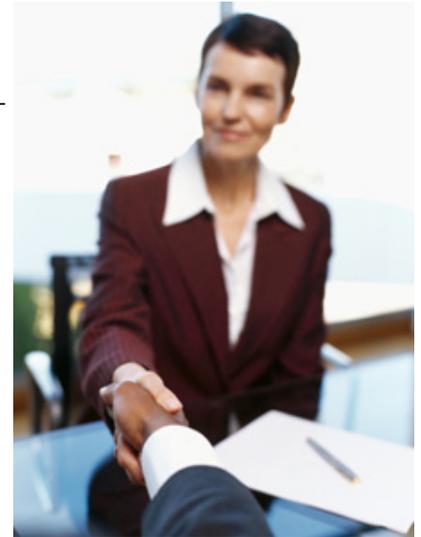
OMB Circulars require that "some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action."

This means that each line-item in a proposed budget must be reviewed in one of two ways: 1) Price analysis is the comparison of prices for similar goods/services (e.g., tuition, books) to evaluate the price to be paid, and 2) cost analysis is the review and evaluation of each element of cost in a line-item budget (e.g., salaries, rent, profit) submitted by a proposer. Both analyses are used to determine reasonableness, allocability and allowability of the proposed costs. Although cost analysis and price analysis are different techniques, you will likely use both when analyzing line-item budgets.

One of the most important tools utilized for cost and price analysis is a cost estimate. For example, during the initial procurement process for contracted services, a cost estimate should be prepared before an RFP (request for proposals) is issued. Essentially, this gives you a solid estimate of what the likely costs of the procurement will be and a benchmark for reviewing proposals submitted. A thorough cost estimate details line-item costs and prices in order to present a general estimate of amounts and types of labor and other costs that should be needed to perform the work.

One way to develop a cost estimate is to use past and/or current contracts for the same or similar services as a starting point. Then you tailor the cost estimate to account for the specific type and quantity of staff positions, associated salaries, and other costs (e.g., training materials, facilities, support costs) necessary to carry out the deliverables defined in the RFP's scope of work.

Historical cost data should be adjusted for factors such as inflation. Some costs will require new price comparisons, especially costs for materials such as text books and computer equipment, or for lease/rental agreements for the upcoming program year. Once it's completed, the cost estimate becomes an essential tool for ensuring that proposers' prices are not out of line or unreasonable.



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Additionally, you can use the cost estimate as a basis for establishing parametric estimates such as cost per participant served. For example, we could estimate the cost per participant for the upcoming program year 2011/2012 youth program based on the prior years' cost information. The following table presents an example utilizing costs for youth services for program year 2010/2011:

Program Year 2010/2011			
Youth Contractor	# of Participants Served	Contract Amount	Cost per Participant
A	50	\$149,721	\$2,994
B	60	\$143,138	\$2,386
C	55	\$137,212	\$2,495
Average cost per participant			\$2,625

We can then use the above information to estimate the cost per participant for the Program Year 2011/2012 youth program by assuming a 1.6% inflation factor—which indicates the cost per participant should/will likely be approximately \$2,783 ($\$2,625 \times 1.06$) for the upcoming program year.

Once you have selected the contractor(s) to provide the services, you will need to perform a separate cost and price analysis of the proposed budget. Essentially, this is a detailed review and evaluation of each element of cost in a line-item budget (e.g., salaries, rent, profit) submitted by a proposer in order to determine that each element is 1) allowable, 2) reasonable and necessary, and 3) allocable.

To determine this, the following cost principles specified in OMB circulars must be utilized:

Allowability – “To be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto under these principles and conform to any limitations or exclusions set forth in these principles or in the award as to the types or amount of cost items.”

Reasonable and necessary – “A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time of the decision was made to incur the costs. In determining the reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.”

Allocable – “A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it is incurred specifically for the award, benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or is necessary in the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.”

The cost and price analysis plays an integral part in a Workforce Board's negotiation process with the contractor(s). The cost and price analysis performed on a proposer's line-item budget should document the following:

- Each line-item reviewed
- Determination that the costs are allowable, reasonable, necessary, and allocable (yes or no)
- The basis for determination (historical costs, estimates, comparisons, salary survey, etc.)
- Justification of costs (supporting information/calculations)
- Comments to discuss with contractor during negotiations (e.g., costs that do not appear reasonable, necessary, allowable, allocable, or that are not properly supported)

On the following page is an example of cost and price analysis for a contractor's line-item proposed budget:

A cost and price analysis was performed on the proposed contract budget to determine if proposed costs/allocated percentages are allowable, reasonable, necessary, allocable and justified.

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Line Item	Proposed Line Item Budget	Cost Is Allowable, Reasonable, Necessary Allocable (Yes or No)	Basis: H=Historical Costs E=Cost Estimate P = Price Comparison S=Salary Survey O = Other Offers	Justification	Comments
SALARIES					
Instructor	\$38,000	Yes	H, S, O	Annual Position salary = \$38,000.	
Summer Lab Teacher	\$2,700	Yes	H, S, O	150 hours @ \$18.00/ hour. Annual Position Salary = \$48,110	
Program Director	\$5,667	No	H, S, O	Annual Position salary = \$56,667. Workforce Board's allocated share equates to 10% of total salary	Discuss 10% allocation, appears high.
Career Specialist	\$3,750	No	H, S, O	Annual Position salary = \$75,000. Workforce Board's allocated share equates to 5% of total salary	Annual salary not in-line with historical average of \$35,000 - \$40,000.
FRINGE BENEFITS					
Total Fringe Benefits	\$13,030	Yes	H, S, O	26% of total salaries (\$50,117). FICA, Medicare, Unemployment, Health Insurance, Retirement, etc.	
OTHER COSTS					
Rent	\$7,500	Yes	H,E,P	\$625 per month, based on 500 square ft. @ \$15/sq.ft.	
Copier	\$1,000	Yes	H,P	\$150/month. Annual costs = \$1,800. Workforce Board's share 55.5%	
Computer	\$2,000	No	P	1 desktop, monitor and printer	Cost is higher than price comparison of \$1,000.
Textbooks	\$1,750	Yes	H,P	\$50 per participant based on 35 participants	
Lunches	\$6,300	Yes	H,P,E	Summer component \$6.00 day/participant for 30 days with 35 participants	
Student incentives	\$7,000	Yes	H,E	\$50/week X 35 students X 4 weeks	
PROFIT					
Total Profit	\$8,870	Yes	H, E	10% of total costs before profit (\$88,697)	
TOTAL COSTS	\$97,567	Yes	E	35 participants. Cost per participant = \$2,788	

Those items noted in the comments section of the cost and price analysis should be discussed and resolved with the contractor during the negotiation process. Once the budget line-items are finalized, the cost and price analysis should be updated and placed in the procurement file.

The bottom line? A well-constructed cost and price analysis is much more than a simple requirement. It's a comprehensive tool that provides many crucial functions: It helps organizations realistically estimate program and materials costs, review submitted proposals, negotiate contracts, and document budgeted expenditures. In some instances, it can be used as a template for creating a brand new cost estimate for similar services/items. Making sure that your organization's cost and price analysis processes are clear, up-to-date, and streamlined can save you time and money while enhancing your agency's overall effectiveness.

Taylor, Lombardi, Hall & Wydra, P.A., is a firm of independent Certified Public Accountants, located in the Orlando, FL area. For over 18 years, TLHW has provided monitoring, continuous improvement, and technical assistance services to Workforce Boards and non-profit organizations—including conducting various process reviews for Workforce Boards. For more information about TLHW, please contact us at (407) 539-2066 or visit www.tlh-cpa.com.