

## PRICE AND COST ANALYSIS--AN EXPLANATION

Some form of price or cost analysis should be performed in connection with every procurement action, regardless of whether the organization is a vendor or a subrecipient. The form and degree of analysis, however, are dependent on the particular subcontract or purchase, and the pricing situation. Determination of price reasonableness through price or cost analysis is required even though the procurement is source directed by the contracting officer of the sponsoring agency.

In some purchases, price analysis alone will be sufficient; in others, price analysis will be used to corroborate the conclusions arrived at through cost analysis. The form and degree of analysis are dependent on facts surrounding a particular subcontracting or purchasing situation. The scope of price analysis performed and the particular techniques used will depend on whether or not cost analysis is done, as well as on such factors as type of product or service, dollar value, purchase method, and extent of competition. The words "vendor" and "subcontractor" used herein are interchangeable.

It is important to remember that the information requested herein is based on Federal and State requirements. Please call Contracts and Grants if you have questions about this information.

**Price Analysis** is the process of deciding if the asking price for a product or service is fair and reasonable, without examining the specific cost and profit calculations the offeror used in arriving at the price. It is basically a process of comparing the price with known indicators of reasonableness.

When adequate price competition does not exist, some other form of analysis is required. Some reasons that could affect adequate price competition are: specifications are not definitive, tolerances are restrictive, or production capacity limits those eligible to bid.

Examples of other forms of price analysis information include:

- analysis of previous prices paid
- comparison of vendor's price with the in-house estimate
- comparison of quotations or published price lists from multiple vendors
- comparisons with GSA prices

**Cost Analysis** is the element-by-element examination of the estimated or actual cost of contract performance to determine the probable cost to the vendor. The goal is to form an opinion on whether the proposed costs are in line with what reasonably economical and efficient performance should cost.

Cost or pricing data, which should be provided by the subcontractor, are the means for conducting cost analysis. Such data provide factual information about the costs that the subcontractor says may be incurred in performing the contract. Cost analysis should be performed in those situations where price analysis does not yield a fair and reasonable price and where cost data are required in accordance with prime contract clauses.

Cost analysis techniques are used to break down a contractor's cost or pricing data so as to verify and evaluate each component. Some of the cost elements examined for necessity and reasonableness are materials costs, labor costs, equipment and overhead. These costs can be compared with actual costs previously incurred for similar work, the cost or pricing data received from other offerors, and independent cost estimate breakdowns.

# HARVARD UNIVERSITY VENDOR JUSTIFICATION/PRICE VERIFICATION FORM

TUB AND ORG NAME: \_\_\_\_\_ ACCT.CODE: \_\_\_\_\_ DATE: \_\_\_\_\_  
Tub/Org/Object/Fund/Activity/Sub-Activity/Root  
WEB VOUCHER NO: \_\_\_\_\_ VENDOR: \_\_\_\_\_ ☐ Grant ☐ Contract ☐ Cooperative Agreement ☐ OTA (please check one)

Harvard University **requires** vendor selection justification and price verification for orders over \$5,000 purchased with Government funds in the 100,000-199,999 fund code range. Please check "Funding Instrument Code" at bottom of Action Memo. Check the appropriate boxes below and file this form with your departmental award records. Call the Procurement Management Compliance Officer at 495-5431 if you have any questions regarding this form.

**ALL PURCHASES Under \$5,000** All Sub-\$5,000 purchases made with Federal funds may be subject to a Federal audit at any time. All such purchases should be made prudently and subject to fair and reasonable pricing. Internal documentation such as purchase orders, invoices, copies of competitive quotes or proposals, or cost/price analysis should be retained as justification of reasonable pricing for items under \$5,000. A justification for sole source selection should also be retained.

**CONTRACTS \$5,000 & Over** Competitive bidding is required for each and every purchase \$5,000 and over. Please complete Section A. If only one bid is received, indicate bidder on Section A and complete Section C. For non-competitive purchases (i.e. sole/selected source, University-wide agreements, blanket orders) complete Section B and Section C.

**GRANTS \$5,000-\$9,999** Price analysis is required for each and every purchase. For purchases \$5,000 and over, please complete Section C.  
**\$10,000 & Over** **Requires:** 1) basis for vendor selection 2) justification for sole or selected source 3) basis for award price for each purchase \$10,000 and over. Please complete Section A or Section B, and Section C.

## SECTION A

**Lowest Competitive Bid** (same item priced differently by several vendors). Record oral or written quotations below. Retain copies of bids/quotations in department files for audit purposes.

|                |                   |
|----------------|-------------------|
| Vendor A _____ | Total price _____ |
| Vendor B _____ | Total price _____ |
| Vendor C _____ | Total price _____ |

## SECTION B

If the lowest bidder was **not** chosen, select **ONE**:

☐ **Selected Source** (alternative vendors exist, but vendor selection was based on a) *technical* requirements (e.g. precision, reliability, etc.) or b) *past performance* of alternative vendors (poor service level, unavailability of parts, etc.). Identify other sources considered and on what basis they were rejected. Explain: \_\_\_\_\_

☐ **Sole Source** (no other company is known to be capable of fully satisfying requirement). Explain: \_\_\_\_\_

Retain vendor selection documentation in department files.

## SECTION C

**Cost/ Price Analysis** Select **one or more** of the following statements to indicate that the bid price was fair and reasonable.

☐ The quoted prices incorporate discounts not available to the general public and reflect substantial savings (e.g. University-wide Harvard contract prices, **negotiated pricing, or vendor partnership agreements**).

☐ The quoted prices compare favorably to previous prices paid for the same or similar items on Web Voucher No. \_\_\_\_\_ Dated \_\_\_\_\_

☐ The quoted prices compare favorably to Harvard in-house estimates (e.g. University Information Systems, **University Operations Services, etc.**) for similar items.

☐ The quoted prices were reviewed as part of Harvard's overall proposal by the federal sponsoring agency and were found to be acceptable.

☐ The vendor has stated that the quoted prices are no greater than those charged to the vendor's most favored customer.

☐ The price was obtained from a current catalogue or standard printed price list.

☐ Other: (i.e. Cost Analysis for construction projects) \_\_\_\_\_

**Department Authorization** (Signature of the department buyer who initiated the purchase)

Name (please print) \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Telephone Number: \_\_\_\_\_ Email Address: \_\_\_\_\_

Revised 4/2003