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PRIMER AND CHECKLIST FOR CONDUCTING COST AND PRICE ANALYSIS FOR INTERAGENCY AGREEMENTS

PRIMER

This primer guides agency staff in conducting cost and price analyses for interagency agreements under which the agency buys goods and services from other Federal agencies. It is particularly geared towards staff who do not routinely conduct cost and price analysis (i.e., technical staff). It contains two parts:

- **Part I:** Overview of Key Concepts in Cost and Price Analysis; and
- **Part II:** Checklist for Conducting Cost and Price Analysis for Interagency Agreements.

PART I: OVERVIEW OF KEY CONCEPTS IN COST AND PRICE ANALYSIS

Price analysis is the evaluation and review of the total price of an item (or program) without regard to the individual elements of cost. **Cost analysis** refers to the detailed element by element review and evaluation of each component of cost proposed by an organization for a particular program. While price analysis can be used alone, it generally will not provide an adequate basis for the determination of reasonableness in anything other than simple procurements for which there is adequate catalog pricing and market competition. Cost analysis, on the other hand, can generally never be used without price analysis as well. Why?

- Suppose you were asked by the Government to submit a proposal to build a car. Your proposal might look something like this:

Salaries	$3,000
Other Direct Cost	$1,500
Overhead	$2,500
Materials	$1,000
Profit	$500
Start-up costs	$2,000,000
Total	$2,008,500

Based upon cost analysis alone, you could likely conclude that the proposal was indeed reasonable---even the $2M for start-up--- assuming that you have never built a car before. But, obviously, the total price is not reasonable, since the

Government could obtain a car elsewhere for significantly less. This can be seen through price analysis, not cost analysis.

The end goal of the combined price and cost analysis is to be able to determine whether or not the proposed price and costs are **fair and reasonable** and – if not – what is? **Fair and reasonable** can be considered in three dimensions: fair in the current market conditions (i.e. does this represent what the market will bear?); reasonable to the seller (Participating Agency); and reasonable to the buyer (i.e. USAID). The goal of any negotiation is to find a price that satisfies these three dimensions. While determining what is fair and reasonable is partially a subjective process, the determination is generally based substantially on objective data. The most common sources of objective data include

- Historical prices/costs – Negotiated costs or prices from previous applications for similar programs are useful points of comparison. You must be certain that the previous price or cost has, at some point, been established as fair and reasonable itself. Additionally, you will often need to adjust the historical price or cost for inflation or to reflect current upward or downward market changes (e.g., inflation).

- Catalog or market prices – Costs or prices that can be verified through established catalog or market mechanisms are the perhaps the easiest to analyze. Common examples of these types of costs include equipment (e.g., copiers, computers, furniture, vehicles, etc.), airfares, DHL services, etc. While "salaries" are generally not going to be found in a catalog, you can make comparisons of proposed salaries with salary offerings for similar services in employment sections of journals, newspapers, etc. or by comparing the position to a similar USG position.

- Cost Estimating Relationships (CERs) – CERs range from general rules of thumb, developed from practical experience to complex formulae developed from detailed statistical analysis of past programs. An example of this type of estimating is what a construction contractor might devise relating floor space ($22- $25 per square foot) to building cost (* 2200 square feet = $49,400). Applicants may describe the use of a CER for certain elements of cost in their proposal or for the overall price of certain components. In all cases, it is the responsibility of the applicant to describe any CERs used and the basis. You will then need to determine if the CER represents a fair and reasonable estimating methodology for the given cost element.

- Government estimates – The use of the independent government estimate (IGE) may be a method for determining fair and reasonableness provided the IGE does not merely reflect the amount of money allocated to conduct a program but a real "grounds-up" estimate of a particular program's costs/price. For example, the IGE for a democracy program in Ukraine that utilizes actual costs from the same type of democracy program in Russia would probably represent a sound IGE to utilize in conducting a cost analysis of applications for the Ukraine effort.

- Government cost or prices – Related to the above, government costs or prices are often a good measure of reasonableness. For example, proposed per diem, salaries of foreign nationals, rent for local office, etc. can be compared to costs that USAID pays for same or similar services. While non-government organizations are not to be forced to use USG rates (especially since some USG prices are actually not available to the general public), they can serve as a good indicator of reasonableness.

Cost and price analysis must be tempered with consideration of program value. Value analysis is intended to establish a concept of the value of the program. Program value should not be determined by the amount of funds allocated for the program. Even if cost analysis concludes the elements proposed are fair and reasonable and price analysis suggests the overall program cost is reasonable, the value analysis question asks: Is this a good value for the government? Questions related to value analysis include

- What result is the program trying to achieve?
- What do similar or same programs cost now? What total prices do we pay for similar or same programs?
- What other way could this result be obtained? What would that alternative cost as a point of comparison?

PART II: CHECKLIST FOR CONDUCTING COST AND PRICE ANALYSIS FOR INTERAGENCY AGREEMENTS

The following checklist is a general guide to assist you in ensuring your analysis is complete. This checklist specifically addresses Participating Agency Program Agreements (PAPAs) and Participating Agency Service Agreements (PASAs) since those are the two most prevalent types of interagency agreements in use at USAID. However, the principles below can be used, as applicable, on other types of interagency agreements as well. Cost applications from other federal agencies to USAID will take a variety of forms. The key item to consider is whether or not the cost proposal is comprehensive, clear and is presented by an individual at the Participating Agency who has the authority to submit and negotiate such a budget on behalf of his/her agency.

Most Participating Agencies will break their proposed budget into cost elements. Each cost element should be supported by written or verbal information that explains the basis of the estimate. It is important to document verbal support in the negotiation memorandum so that the record demonstrates the basis upon which the negotiator accepted the cost. Common cost elements and questions that should be considered follow:

Personnel:

PAPAs:

- Are the number and type of staff proposed necessary/adequate to perform the program proposed?
- Is the expatriate staffing mix (Cooperating Country National (CCN), Third-Country National (TCN), United States-hire) appropriate for the program proposed?
- Are the expatriate salaries fair and reasonable (using the respective Mission CCN/TCN plan as a guide for the non-U.S. salaries)?
- What is this determination based upon? Historical data? Market comparisons? Other information available to you?

PASAs:

- Are the types and levels of individuals proposed commensurate with the type of services requested?
- If non-direct-hire individuals are proposed for use, is this part of the Participating Agency's on-going program? (The Participating Agency should not be otherwise contracting out for consultants at USAID's request.)
- Has the Participating Agency appropriately budgeted for Civil Service step increases, Federal raises, similar costs (if direct-hire personnel are used) or for other pay increases afforded any non-direct-hire personnel proposed to be used.

Travel:

PAPAs:

- Are the number and type of proposed trips necessary and reasonable for the proposed program?
- Are the proposed airfares reasonable? (Keep in mind that the Participating Agency should be quoting government airfare rates if personnel used in the program are government personnel.)
- Are the proposed per diem, differentials, and other travel expenses in accordance with Federal Travel Regulations (for direct-hire employees of the Participating Agency) or otherwise reasonable (for non-direct-hire employees of the Participating Agency)? (While you should use USAID's regulations as a basis for determining reasonableness for non-direct-hire employee costs, a nongovernmental organization (NGO) is not required to use USG rates or policies. You should, however, ensure that the proposed amounts are consistent with the NGO's own policies and procedures for travel.)

PASAs:

- Are the number and type (e.g., Rest and Recuperation, Home Leave, Repatriation) of proposed trips in accordance with the number and type of proposed trips afforded to USAID employees posted overseas? (This applies to both direct hire and non-direct-hire employees of the Participating Agency.)

- Do the airfare rates reflect appropriate government fares or are they otherwise reasonable (in cases where the Participating Agency is not able to provide government airfares to non-direct hire employees.)?
- Are the proposed differentials, per diems, allowances, and similar costs in line with the amounts paid to USAID direct-hire employees or otherwise reasonable for non-direct hire employees of the Participating Agency (see above section on PAPAs)?

Equipment:

PAPAs:

- Is the equipment proposed necessary for the program? (E.g., does the Participating Agency need five vehicles or will two suffice? Are 3 laptops sufficient for an office staff of 10 who are traveling frequently for program implementation?)
- Does the Participating Agency have title to or access to equipment from previous programs that could be utilized instead of purchasing new equipment?
- Are proposed prices reasonable? (For many items of equipment, historical or catalog prices are easy ways to verify reasonableness. This is often as easy as calling a store or accessing information on the Internet.)
- If the equipment description is detailed enough, verify it for compliance with the applicable source, origin, and nationality provisions.

PASAs:

Because PASAs are entered into for the provision of services generally on-site at USAID, purchase of equipment is generally not an appropriate item of cost and requires approval if it is to be included. See policy on contracting under PASAs in ADS Section 306.3.2.6.

Supplies:

PAPAs:

- Are the types and quantities of supplies necessary/sufficient for the proposed program?
- Are the proposed supplies reasonable in price? (Again, in the case of supplies, this is easily checked by getting price quotes from a store, catalog, or the Internet or from USG sources of supply.)

PASAs:
Because PASAs are entered into for the provision of services generally on-site at USAID, purchase of supplies is generally not an appropriate item of cost and requires approval if it is to be included. If, however, supplies are purchased with USAID funds, the above guidance for PAPAs may be used.

Contractual:

PAPAs:
This element of cost is for contracts for services, other than construction services. Examples could include a contract with an indigenous organization for local office cleaning, security services, or exchange services. Contracts for equipment or supplies are addressed above. Construction services are addressed below.

- Are the proposed services necessary and sufficient for the proposed program?
- Are the contracted services duplicative of services that may be offered by the cognizant USAID Mission? (Please keep in mind that – unlike contractors --- Participating Agencies under PAPAs are generally entitled to little, if any, logistical support from the Mission.)
- Are the prices of the services reasonable? (For services in country, you can use what the Mission is paying as a test of reasonableness.)

PASAs:
Because PASAs are entered into for the provision of services generally on-site at USAID, contracting out is generally not an appropriate item of cost and requires approval if it is to be included. See policy on contracting under PASAs in ADS Section 306.3.2.6 and 306.3.2.7.

Construction:

PAPAs:
Construction is rarely a part of USAID's interagency programs and, for a variety of reasons, you are encouraged to accomplish construction under host country contracts or direct USAID contracting. Nevertheless, construction does occur under USAID interagency agreements from time and time. When it is proposed as part of the Participating Agency's program, you should require back-up detail for the amount provided.

- Is the proposed construction necessary for successful accomplishment of the program?
- Is the proposed material component reasonable? Do the proposed materials comply with any source, origin, and nationality requirements?

- Is the proposed labor reasonable? Does it reflect the current market rate for that type of local labor?
- Are sufficient oversight and management costs proposed?
- Has the Participating Agency maximized the use of local labor where appropriate?
- Are factors such as building permits and other required approvals considered in the total amount? If so, do the proposed amounts reflect the costs for those items in country?

PASAs:
Construction is not to be a part of any PASA agreement.

Other Costs:

PAPAs and PASAs:
This element is for costs that do not fall into any of the above categories. Since this item will vary, review of those costs to determine whether they are fair and reasonable will also vary. Generally, you should ask yourself whether the proposed items of cost are necessary for the successful accomplishment of the program or activity and look for a sound basis to determine whether the proposed costs are reasonable. "Other costs" are more likely to be part of a PAPA budget than a PASA budget since most PASA costs are salary and travel-related and should not require "other" categories. This category is not be to used to establish funding for anything that could be characterized as "contingency" or "miscellaneous" since every item of cost included in an agreement must have some basis and clear identity.

Indirect Costs

PAPAs and PASAs: You should ask yourself **two** questions related to indirect costs:

- Is the proposed rate in accordance with the Participating Agency's established indirect rate for use with other federal government agencies?
- Is the rate applied to the correct base as stipulated in the rate determination?

If the answer is "no" to either of these questions or there is no established rate, please contact the Overhead and Special Cost Branch of the Office of Procurement.