

## 2.110 Cost or Price Reasonableness

Effective Date: 07/30/24

Prior Dates Amended: 02/02/17; 09/06/17; 08/01/18; 10/23/20

### I. PURPOSE

To establish guidelines for evaluating and justifying the cost or price reasonableness of procurement actions.

### II. DEFINITIONS

- A. **Invitation for Bid (IFB):** A written solicitation (including all documents, whether attached or incorporated by reference) to prospective bidders, requesting bids on a certain procurement.
- B. **Request For Proposal (RFP):** A written solicitation (including all documents, whether attached or incorporated by reference) to prospective offerors requesting proposals. This method is used when the selection criteria include other factors in addition to price.
- C. **Request for Quotation (RFQ):** A procurement method used to determine source selection based on price.

### III. RESPONSIBILITIES

#### A. Principal Investigator:

1. Document that the cost or price is fair and reasonable. Complete the Determination of Cost or Price Reasonableness form and submit it to the Fiscal Administrator (FA) for approval. Respond to the FA's inquiries.

#### B. Fiscal Administrator:

1. Regardless of the purchase price, ensure that the Determination of Cost or Price Reasonableness form sufficiently details that the cost or price is fair and reasonable; ensure that the cost is allowable and allocable; and ensure that the basis for the determination of cost or price reasonableness is in the procurement file. Respond to any inquiries from RCUH Procurement.

### IV. POLICY

A key element of procurement is justifying the cost or determining the price reasonableness of an action; refer to [2 C.F.R. § 200.404](#). Cost or price reasonableness,

sometimes referred to as a cost or price analysis, is best exemplified via the Prudent Person Test. Given a reasonable knowledge of market conditions, would a prudent businessperson pay the asking price for a product, service, or construction?

RCUH policy and federal regulations (see [2 C.F.R. § 200.324](#)) require documentation of cost analysis or price analysis for procurement actions. The [Attachment 1 Determination of Cost or Price Reasonableness](#) form is used to document the analysis to show that the offered price is fair and reasonable. The form is kept as part of the procurement file to demonstrate that the procurement process was conducted in an open and fair manner and that RCUH received the most advantageous price.

#### A. Details of Policy:

##### 1. When is a Determination of Cost or Price Reasonableness Required?

The [Attachment 1 Determination of Cost or Price Reasonableness](#) form is required for the following procurement actions that are greater than the micro-purchase threshold of \$10,000:

- i. Sole source, including any procurement action approved for sole source in [UH AP 8.255 Sole Source Procurement](#), Exhibit A.
- ii. Emergency procurement where only one (1) quote is received; refer to [Policy 2.108 Emergency Purchase](#).
- iii. Request for Quotations (RFQ) where the solicitor uses discretion to select the vendors invited to submit a quote, *and* where *less than* three (3) quotations are received. In this situation, the solicitation is *not* publicly posted.
- iv. RFQs or Invitations for Bid (IFB) (used for construction procurement) where the solicitation is publicly posted in such a way that the solicitor does not control who responds (e.g., the utilization of SuperQUOTE or an equivalent State public posting system, or advertising in a publication of regular circulation), *and* where *only one (1)* quote/bid is received.
- v. All RFQs and IFBs where the lowest quote/bid is NOT selected.
- vi. All Request for Proposals.
- vii. Price adjustments to an existing purchase order or contract that increases the dollar amount (this action usually involves a purchase order change form and/or contract amendment).
- viii. Any exempt procurement action in [UH AP 8.220 General Principles, Section 9, unless excepted in Section IV.A.2 below](#).

- ix. Professional services procurement; refer to [Policy 2.210 Professional Services Contracts](#).
- x. Any extension of an existing contract past its initial term which increases or adds to the cost or price (i.e., an [Attachment 1 Determination of Cost or Price Reasonableness](#) form is not required for no-cost extensions); refer to [Policy 2.205 Multi-Term Contracts](#).

## 2. When is a Determination of Cost or Price Reasonableness Form NOT Required?

A Determination of Cost or Price Reasonableness form is not required in the following situations:

- i. Procurement actions of \$10,000 or less, where the price of the good or service is deemed reasonable (the approval of the FA indicates price reasonableness).
- ii. RFQs where discretion is used to select the vendors invited to submit a quote, *and* where three (3) quotations are received and an award is made to the lowest responsive and responsible bidder.
- iii. RFQs and IFBs where the solicitation is publicly posted in such a way that the solicitor does not control who responds (e.g., the utilization of SuperQUOTE or an equivalent State public posting system, or advertising in a publication of regular circulation), *and* where at least two (2) quotes/bids are received and an award is made to the lowest responsive and responsible bidder.
- iv. Issuance of a University of Hawai'i subaward agreement on a Federal Grant or a Federal Cooperative Agreement. The University of Hawai'i has determined that a UH subaward is not a procurement action.
- v. Payment for utility services that are regulated by a public utilities commission (i.e., electricity, water, gas), and postage via the United States Postal Service.

## 3. Price Analysis

- i. Price analysis is the process of determining whether the price is reasonable and acceptable. The analysis should include an evaluation of price for the same or similar products or services,

details of the research conducted, details of negotiations with the vendor or contractor, or details of other efforts made by the program to validate price reasonableness.

Price comparisons, not limited to the following, may be used in the price analysis.

- a. Comparison with bids or offers in the current procurement action,
- b. Comparison with prior price quotations or contract prices for the same or similar items or services.
- c. Comparison with a published catalog price or published price list (a vendor's quotation or correspondence does not qualify as a published price list).
- d. Comparison with prices available on the open market.
- e. Comparison of an invoiced price to own institution or to another institution.
- f. Comparison with prevailing rates in the industry or profession.
- g. The price analysis is documented on the [Attachment 1 Determination of Cost or Price Reasonableness](#) form. See [Attachment 57 Sample Price and Cost Analyses](#) for assistance with price analyses.

#### 4. Cost Analysis

- i. A cost analysis may be completed by performing an in-house estimate, which is the cost of the work if performed by your own staff, or an independent cost estimate, which is a cost review conducted by a third-party expert. When conducting a cost analysis, consider the following:
  - a. Specific elements of cost.
  - b. The necessity for certain costs.
  - c. The reasonableness of amounts estimated for necessary costs.
  - d. The reasonableness of allowances for contingencies.

- e. The basis used for the allocation of indirect costs.
- f. The appropriateness of allocations of particular indirect costs to the proposed contract.
- g. The reasonableness of the total cost.

Generally, cost analysis, rather than price analysis, is used to evaluate offered prices for complex procurement actions, or when comparative data to perform a price analysis does not exist. A cost analysis is performed for each proposal so that comparisons can be made between offers. These comparisons are documented on the [Attachment 1 Determination of Cost or Price Reasonableness](#) form.

In addition to the Project's cost analysis, Federal Acquisition Regulations require that cost or pricing data be submitted by the contractor or vendor under specific circumstances involving POs over \$750,000 for federal prime contracts awarded before July 1, 2018, and POs over \$2,000,000 for federal prime contracts awarded on or after July 1, 2018; refer to [Policy 2.303 Certification Statements Required for Federal Purchases](#).

## V. CONTACT INFORMATION

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## VI. REFERENCES

- A. [Attachment 1 Determination of Cost or Price Reasonableness](#)
- B. [Attachment 57 Sample Price and Cost Analyses](#)
- C. [Policy 2.106 Sole Source Purchase](#)
- D. [Policy 2.107 Exempt Purchase](#)
- E. [Policy 2.108 Emergency Purchase](#)
- F. [Policy 2.205 Multi-Term Contracts](#)
- G. [Policy 2.210 Professional Services Contracts](#)

- H. [Policy 2.303 Certification Statements Required for Federal Purchases](#)
- I. [UH AP 8.220 Procurement General Principles, Section 9](#)
- J. [UH AP 8.255 Sole Source Procurement](#)
- K. [UH AP 8.285 Cost or Price Reasonableness](#)