

HIGH COUNTRY Workforce Development Board Program Cost Analysis Guide

INTRODUCTION

This cost analysis guide provides a framework for determining prices and evaluating reasonableness of costs associated with the operation of WIA Title I-funded activities in the High Country Workforce Development Board (WDB) service area of Alleghany, Ashe, Avery, Mitchell, Watauga, Wilkes, and Yancey County(ies).

An objective cost/price analysis enables the WDB to provide the services available to the greatest number of individuals which will result in employment at a family-sustaining wage. A contract that is obtained for the best price is one that most efficiently uses the available funds to provide quality services to the greatest number of appropriate customers. An objective cost analysis will help the Board determine the service providers who can most effectively meet this goal.

In performing cost analysis, the assigned staff must perform discrete functions:

1. Verify the cost and pricing data submitted by the bidder and evaluate the cost elements in that data to include:
 - Judging the necessity for and reasonableness of proposed costs, including allowances for specific contingencies;
 - Evaluating the service provider's cost trends on the basis of current and historical cost or pricing data. This function also includes conducting a technical appraisal of the estimated labor, material, and other requirements proposed. This step may also require evaluators to apply negotiated, audited, or proposed indirect cost rates to determine the contract price, where such rates are proposed;
2. Compare costs proposed by service providers with other data:
 - This data includes actual costs incurred by the same service provider in the past.
 - Cost analysis can also compare the current proposed costs with previous cost estimates from the same service provider or from other service providers for the same or similar items.
 - It is appropriate and helpful to compare costs with those proposed by other service providers in the same procurement process.
3. In addition, a cost analysis will be performed to verify that the service provider's submitted costs are in accordance with applicable contract cost principles. These cost principles define and describe the meanings and limits of a variety of costs. *Costs that do not conform to these meanings and limits are not allowable.* State or local laws and regulations may make certain costs unallowable or place limits on costs in addition to those cited in WIA provisions or regulations.

ANALYSIS PROCEDURE

The cost analysis procedure may vary by program, service, or activity; the reviewer may require more justification of some types of services than others in order to strengthen the capability to analyze costs. However, common elements for review of all programs include the following steps:

1. Check computations;
2. Review for completeness of information;
3. Review for proper cost categorization;
4. Determine the estimating base; and
5. Determine the allowability of the proposed estimate.

Allowability includes:

- a. Necessity;
- b. Reasonableness;
- c. Terms of the contract;
- d. Cost principles;
- e. WIA regulations or policies;
- f. State policies; and
- g. WDB policies.

In addition to these guidelines, the WDB may employ any or all of the following procedures to determine cost reasonableness:

1. Development of an independent estimate for planning and comparison purposes;
2. Comparison of competitive bids, where available;
3. Comparison of prior quotations/contracts with current proposals for the same or similar programs;
4. Comparison of prices on published price lists;
5. Comparison of the proposer's estimated cost to actual costs incurred for former programs of the same or similar nature. (Historical cost data should be adjusted for inflation and any upward or downward price trends); and
6. Any other cost analysis available.

It is equally important that the contract reviewer have a technical understanding of the contract requirements. In addition to the ability to determine excess costs, the reviewer should be reasonably certain the proposer has requested enough funding to fulfill contract requirements.

CONTRACT

In most cases, the cost reimbursement method of contracting will be used by the WDB for the provision of services to WIA customers. (1) All applications for cost reimbursement contracts require detailed line item budgets. Payment for cost reimbursement contracts is made after receipt of the selected contractor's monthly financial request. (2) In the case of fixed-price contracts, the contract will identify specific deliverables, price, and a mutually agreed upon payment schedule, which takes into account conditions specific to that contract. A separate cost

analysis worksheet is used for fixed-price contract cost analysis and will be included in procurement documentation for each contract. (3) At this time, no contracts involving for-profit firms are under consideration in the High Country Workforce Area; however, in the event that such proposals may be considered in the future, this provision will be modified. For future reference, cost analysis worksheets for for-profit/fee-for-service contracts is included in this document.

MODIFICATION

Where a contract modification significantly alters the conditions, scope, or services of the original contract to the extent that the substance of contract budgets is altered, an additional cost analysis must be performed.

OPTION YEAR(S)

Where solicitations seek second-year or third-year operations or option year cost proposals from service providers, these proposals will be subject to the same detailed cost/price analysis as the first year. The reviewer must examine how the subsequent year costs will change from the ones in the first year. Unless the RFP calls for a reduced scope of work in the subsequent year, usually the work will be the same.

However, in nearly all instances, costs may change. For example, inflation occurs, contractor personnel usually receive pay raises, etc. Thus, the cost of labor and materials usually rise, but they do not rise equally. Also, improvements in efficiency and the work experience level of personnel may be expected to result in lower operating costs. Facility and other costs may increase or decrease for a variety of reasons. The reviewer will have to analyze the second year costs in the same manner as other costs.

DOCUMENTATION

Documentation is vital to the cost analysis process. It provides a record of the entire analysis and will be used to justify actions taken. Documentation will be used to justify the rating given to a particular offeror, to use as a basis for discussion and negotiation with the offeror, to use in the event of a protest against the award, and finally to use during contract monitoring and administration.

COST ANALYSIS WORKSHEET
Cost Reimbursement/For-Profit

Part 1 – General

Bidder: _____

		<u>Yes</u>
		<u>No</u>
1. Offeror computations checked and verified Problems/Comments _____ _____ _____	_____	_____
2. All necessary cost elements included Problems/Comments _____ _____ _____	_____	_____
3. Offeror supporting documentation and justification complete Problems/Comments _____ _____ _____	_____	_____
4. WIA categorization (Administration, Program)		
Correctly categorized	_____	_____
Need more information	_____	_____
Problems/Comments _____ _____ _____	_____	_____

Part II – Specific Costs

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)
1. Staff Costs	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		
2. Fringe Benefits (For tax-based elements, be sure that rates and bases are current.)	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		
3. Materials Training/Program	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)
		Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		
4. Materials Office Supplies/General	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		
5. Equipment	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)

Comments/Concerns/Problems:		
6. Facilities	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		
7. Communications	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)
8. Insurance/Bonding	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		
9. Staff Travel	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)
		<p style="text-align: right;">_____</p> <p style="text-align: center;">Compared/Past Offers</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Verified Market Price or Quote</p> <p style="text-align: right;">_____</p> <p>Other (Specify) _____</p> <p>_____</p>
Comments/Concerns/Problems:		
13. Photocopying/Printing	<u>Yes</u> <u>No</u>	<p style="text-align: right;">_____</p> <p style="text-align: center;">Independent Agency Estimate</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Compared/Other Current Offers</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Compared/Past Offers</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Verified Market Price or Quote</p> <p style="text-align: right;">_____</p> <p>Other (Specify) _____</p> <p>_____</p>
Comments/Concerns/Problems:		
14. Supportive Services	<u>Yes</u> <u>No</u>	<p style="text-align: right;">_____</p> <p style="text-align: center;">Independent Agency Estimate</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Compared/Other Current Offers</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Compared/Past Offers</p> <p style="text-align: right;">_____</p> <p style="text-align: center;">Verified Market Price or Quote</p> <p style="text-align: right;">_____</p>

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)
		Other (Specify) _____ _____
Comments/Concerns/Problems:		
<p>15. Indirect Costs (When proposed, ensure that costs not duplicated in direct costs.)</p>	<p><u>Yes</u> <u>No</u></p>	<p>Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____</p>
Comments/Concerns/Problems:		
<p>16. Subcontracts (Review subcontractor cost/price proposal.)</p>	<p><u>Yes</u> <u>No</u></p>	<p>Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____</p>
Comments/Concerns/Problems:		

Cost Element	Necessary/Reasonable	Basis for Judgment (Check One or More)
17. Other (Specify)	<u>Yes</u> <u>No</u>	Independent Agency Estimate _____ Compared/Other Current Offers _____ Compared/Past Offers _____ Verified Market Price or Quote _____ Other (Specify) _____ _____
Comments/Concerns/Problems:		

Part III – Profit/Fee

1. Offeror is (check one) _____ _____
For-Profit Not-for-Profit
2. If not-for-profit, no profit allowable.
3. If for-profit, amount of profit proposed \$ _____
4. Profit is (check one)*
Reasonable Not Reasonable/Excessive
5. If profit is deemed reasonable, describe basis for judgment (*e.g.*, agency profit guidelines; application of profit guidelines; other).

6. If profit is deemed excessive, list profit objective (dollar amount) to be negotiated.

* Based upon the use of the “Determination of Reasonableness of Profit/Program Income” Worksheets.

DETERMINATION OF REASONABLENESS OF PROFIT/PROGRAM INCOME

Assign an overall rating of low, medium or high to each criterion, after responding to the considering regarding each.

- A **Low** rating indicates a low level of effort; low profit/program income justified.
- A **Medium** rating indicates an ordinary effort, *e.g.*, a standard curriculum, some assistance in program delivery, etc.; medium level of profit/program income justified.
- A **High** rating indicates an extraordinary level of effort will be needed for program delivery, *e.g.*, innovative program, strong service to groups with barriers, etc.; high profit/program income justified.

OFFEROR _____ **Overall Rating** _____

Rating completed by: _____ **Date:** _____

1. **Complexity of Work** **Low** _____ **Medium** _____ **High** _____

Will the offeror be responsible for the full range of services for program participants, *i.e.*, recruitment, certification, assessment, case management, training, placement, follow-up through retention?

Yes _____ No _____ Somewhat _____

Will the offeror provide multiple training through several components, *i.e.*, basic skills, pre-employment skills, vocational skills, work-based training, job search?

Yes _____ No _____ Somewhat _____

Will the training be in higher skills, and will the offeror be required to train a high number of individuals with multiple barriers?

Yes _____ No _____ Somewhat _____

Will the offeror be expected to achieve a high level of coordination in providing training or services?

Yes _____ No _____ Somewhat _____

Will the offeror be required to have an accounting system capability to make direct participant payments or reimburse employers directly?

Yes _____ No _____ Somewhat _____

2. **Contract Risk** **Low** _____ **Medium** _____ **High** _____

Will the offeror be reimbursed for all expenses incurred in program delivery?

Yes _____ No _____ Somewhat _____

Is the program design new and/or innovative?

Yes _____ No _____ Somewhat _____

Will the offeror be required to achieve multiple program outcomes?

Yes _____ No _____ Somewhat _____

Is a high level of service required to hard to serve groups?

Yes _____ No _____ Somewhat _____

Are placement and retention goals high?

Yes _____ No _____ Somewhat _____

3. **Contractor Investment** **Low** _____ **Medium** _____ **High** _____

Was the offeror required to develop an innovative, complex program design?

Yes _____ No _____ Somewhat _____

Will the offeror be responsible for setting up and providing training at multiple sites?

Yes _____ No _____ Somewhat _____

Will the complexity of the program require complex accounting and participant recordkeeping?

Yes _____ No _____ Somewhat _____

Will costs be reimbursed on a regular basis, or payments for performance made intermittently?

Yes _____ No _____ Somewhat _____

4. **Subcontracting** **Low** _____ **Medium** _____ **High** _____

Will the offeror rely on subcontracts for program delivery?

Yes _____ No _____ Somewhat _____

Could the level of subcontracting impact negatively the offeror's performance, *i.e.*:

- If OJT or customized training, the employer commits to hire prior to subcontracting, therefore, any negative impact would more likely be related to the offeror's inability to counsel and motivate the participant.
- If other types of training are subcontracted, with the offeror responsible for placement, poor training could negatively impact the offeror's ability to place the participant.
- If only support services are contracted, they would bear no impact on performance.

Yes _____ No _____ Somewhat _____

5. **Past Performance** **Low** _____ **Medium** _____ **High** _____

Past performance should be rated in terms of rewarding high performance with higher profit/program income.

Give a **High** rating if in the previous year the offeror achieved all performance goals at a level of 90% - 100%.

Give a **Medium** rating if in the previous year the offeror achieved all performance goals at a level of 80% - 89%.

Give a **Low** rating if in the previous program year the offeror achieved only 70% - 79% of its performance goals.

If in the previous program year the offeror achieved less than 70% of its performance goals, its past performance should be considered unsatisfactory and negative consideration given to this criterion in determining reasonableness of profit/program income.

If the offeror did not have a contract in the previous program year, the lack of rating for this criterion should not negatively impact the determination of reasonable profit/program income.

6. **Industry Profit Rates**

7. **Market Conditions**

After a consideration of the afore-mentioned criteria, the rating schedule below will be used to determine a reasonable level of profit.

- **LOW** Rating: A profit equal to 3% - 5% of proposed operating costs is considered reasonable.
- **MEDIUM** Rating: A profit equal to 6% - 8% of proposed operating costs is considered reasonable.
- **HIGH** Rating: A profit equal to 9% - 12% of proposed operating costs is considered reasonable.