



USAID
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Cost Analysis Key Components Guidance and Checklist

A Mandatory Reference for ADS Chapter 300

New Edition Date: 04/02/2013
Responsible Office: M
File Name: 300mad_040213



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COST ANALYSIS KEY COMPONENTS GUIDANCE AND CHECKLIST

BUREAU FOR MANAGEMENT (M)
OFFICE OF ACQUISITIONS AND ASSISTANCE
TEMPLATES SERIES

MAY 2012

Introduction

An important part of your job as a primary member of the AO/CO Acquisition & Assistance Support Team is analyzing the proposed pricing for an award decision. Performing cost analyses is essential in order to determine that the price the Government will pay for the supply, service or program is fair and reasonable. The purpose of this topic is to **provide guidance**, identify key components of analyzing separate cost elements and profit or fee in an offeror's or contractor's proposal, as needed to determine a fair and reasonable price or to determine cost realism, and aid your ability to document the result of the analysis through the use of the attached checklist. With only small exception concerning the provision of certified cost and pricing data for contracts, it applies to contemplated contracts and assistance awards.

You should also review the following guidance: *Cost Realism Analysis Key Components Guidance and Template* when using this guidance.

Audience

- | | |
|--|---|
| <input checked="" type="checkbox"/> Agreement Officer | <input type="checkbox"/> Agreement Officer's Representative |
| <input checked="" type="checkbox"/> Contracting Officer | <input type="checkbox"/> Contracting Officer's Representative |
| <input checked="" type="checkbox"/> Contract Specialist | <input type="checkbox"/> Program Analyst/Activity Manager |
| <input checked="" type="checkbox"/> Agreement Specialist | <input type="checkbox"/> Budget Officer |

Acronyms

A&A	Acquisition & Assistance
AO/CO	Agreement/Contracting Officer
CER	Cost Estimating Relationship
DBA	Defense Base Act
FAR	Federal Acquisition Regulations
GAAT	Government's Acquisition & Assistance Team
IGCE	Independent Government Cost Estimate
M/OAA/CAS	Contract Audit and Support Division
NICRA	Negotiated Indirect Cost Rate Agreement
ODC	Other Direct Costs
SCA	Service Contract Act
TEC	Technical Evaluation Committee

Definitions

Allocable Cost: incurred solely to advance the work under the contract or agreement.

Allowable Cost: actual or proposed expenditures that are reasonable, incurred solely to advance the work under the contract or agreement, given consistent treatment by the organization, and are within the limitations of the contract terms and statutory or regulatory requirements.

Cost: is a component of price. Cost is a monetary measure of the expenditure for capital and labor required to complete contract performance

Cost Analysis: is the review and evaluation of the separate elements of cost including profit and/or fee in the Applicant/Offeror's proposal to determine if the projected price is fair and reasonable based on the Applicant/Offeror's assumptions, and whether or not the proposed cost represent what the cost of the award should be assuming reasonable economy and efficiency.

Cost Estimating Relationships (CERs): CERs is a methodology that organizations use to develop cost estimates. 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/Offeror 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.

Cost Realism Analysis: Cost realism analyses shall be performed on cost-reimbursement contracts to determine the probable cost of performance for each offeror. Cost realism is the process of independently reviewing and evaluating specific elements of each Applicant/Offeror's proposed cost estimate to determine whether the cost estimate is realistic for the work to be performed; reflects a clear understanding of the requirements; and is consistent with the unique methods of performance and materials described in the Applicant/Offeror's technical proposal. Cost Realism Analysis is conducted by evaluating the supportive data that form the bases of the individual elements of cost to determine the probable cost of the performance.. The probable cost shall be used for purposes of evaluation to determine the best value. The probable cost is determined by adjusting each offeror's proposed cost, and fee when appropriate, to reflect any additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis. See guidance and checklist for conducting Cost Realism.

Government's Acquisition & Assistance Team: Experts external to the Office of Acquisition and Assistance (e.g. auditor, engineers, legal, transportation, programmatic, etc.) who support the AO/CO in field pricing or source selection evaluation.

Independent Government Cost Estimate: is the government's estimate of the resources and projected cost of the resources a contractor or a recipient will incur in the performance of an Acquisition & Assistance (A&A) instrument. These costs typically include direct costs: such as labor, supplies, equipment, or transportation; and indirect costs such as labor overhead, material overhead, general and administrative (G&A) expenses, and for contract only profit or fee.

Local Compensation Plan: is each country's official system of establishing salary/compensation for Foreign Service National's (FSN), consisting of the local salary schedule, which includes salary rates, statements and authorizing benefits payments, premium pay rates, and other pertinent aspects of the FSN employee compensation (AIDAR 722.170).

Negotiation Memorandum: the AO's/CO's documentation of the principle elements of the considerations leading to an award decision.

Other than Cost and Pricing Data (FAR Based): is data that constitutes pricing information that is not required to be certified

Price: the amount of money that a buyer pays a seller for the delivery of a product or the performance of a service.

Price Analysis: is the process of deciding if the asking price for a product, service or program is fair and reasonable, without examining the specific cost elements and profit the vendor used in arriving at the price.

Key Roles and Responsibilities

AO/CO is responsible for making a determination of fairness and reasonableness of price and documenting the basis of the determination in writing. The AO/CO may request the assistance of experts from the GAAT, as required, in making the determination.

Activity/Program Manager is responsible for developing the USAID's independent government cost estimate and providing support as needed to the AO/CO to determine fairness and reasonableness of price. They are also a source of expertise for source selection evaluation.

Key Cost Analysis Data Sources

- Catalog or market prices – Costs or prices that can be verified through established catalog or market mechanisms are 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 government position or by checking some of the available web sites that compare salaries (e.g., <http://www.salary.com/mysalary.asp>).

- Government cost or prices – Government costs or prices are often a good measure of reasonableness. For example, proposed per diem, rent for local office, allowances for government employees living overseas, salaries of foreign nationals under local country compensation plans, etc. can be compared to costs that USAID pays for same or similar services. There must be a clear showing of close correlation in the parameters for the historical and contemplated acquisition (e.g. buys related time-wise, scope and place of performance, etc.) to be considered same or similar.
- Independent Government Cost Estimates – The use of the independent government cost estimate (IGCE) may be an influencing element for determining fair and reasonableness provided the IGCE does not merely reflect the amount of money allocated to conduct a program but a real estimate of a particular program's costs/price.

Key Cost Analysis Considerations

You must use cost analysis to evaluate the reasonableness of cost elements when cost or pricing data are required.

A cost is reasonable if, in its nature and amount, it does not exceed the cost which would be incurred by a prudent person in the conduct of competitive business.

To be realistic, the costs in an offeror's proposal must be:

- Realistic for the work to be performed under the contract;
- Reflect a clear understanding of contract requirements; and
- Consistent with the various elements of the offeror's technical proposal.

Perform price analysis even when you perform cost analysis. Assuring the reasonableness of individual elements of cost does not always assure overall price reasonableness.

As appropriate, use the following techniques and procedures to perform cost analysis:

- Verify cost or pricing data or information other than cost or pricing data.
- Evaluate cost elements, including:
 - The necessity for and reasonableness of proposed costs, including allowances for contingencies;
 - Projections of the offeror's cost trends, on the basis of current and historical cost or pricing data or information other than cost or pricing data;
 - Reasonableness of estimates generated by appropriately calibrated and validated parametric models or Cost Estimating Relationships; and
 - The application of audited or negotiated indirect cost rates, labor rates, cost of money factors, and other factors.
- Evaluate the effect of the offeror's current practices on future costs.

- Ensure that the effects of inefficient or uneconomical past practices are not projected into the future.
- In pricing production of recently developed complex equipment, perform a trend analysis of basic labor and materials even in periods of relative price stability.
- Compare costs proposed by the offeror for individual cost elements with:
 - Actual costs previously incurred by the offeror;
 - Previous cost estimates from the offeror or from other offerors for the same or similar items;
 - Other cost estimates received in response to the Government's request;
 - Independent Government cost estimates by technical personnel; and
 - Forecasts of planned expenditures.
- Verify that the offeror's cost submissions are in accordance with the contract cost principles and procedures in FAR Part 31 and any applicable Cost Accounting Standards.
- Determine whether any cost or pricing data necessary to make the contractor's proposal accurate, complete, and current have not been either submitted or identified in writing by the contractor. If there are such data:
 - Attempt to obtain the data and negotiate using the data obtained, or
 - Make satisfactory allowance for the incomplete data.
- Analyze the results of any make-or-buy program reviews, in evaluating subcontract costs.

Resource References regarding Cost Analysis includes, but is not limited to, the following:

1. Assistance

- ADS 303
 - Negotiation of Award (303.3.12)
 - Cost Share (303.3.10)
- 22CFR226
 - Section 226.25 – Cost Analysis
- OMB Circular A-122 – Cost Principle for Non-Profit Organizations
- OMB Circular A-21 - Cost Principles for Educational Institutions

2. Contract

- FAR 15 – Contracting by Negotiation
- FAR 31.201- Determining allowability, reasonableness, and allocability

Other Resource Reference includes, but not limited to the following:

1. IGCE reference -ADS 302.3.5.7
2. Pre-diem – See Department of State website
3. Salary of foreign nationalist – See applicable Country Local Compensation Plan
4. [Contract Pricing Reference Guides, VOL 3 - Cost Analysis](#)

COST ANALYSIS CHECKLIST

This checklist is provided as a tool intended to guide and assist USAID Agreement/Contracting Specialist in analyzing cost proposals. Completing the comments section of this checklist will make it easier to document the completeness and accuracy of your cost analysis when you later memorialize the analysis for the negotiation memorandum.

The Cost Analysis Checklist that follows must be used for each prime Applicant/Offerors and its subcontractors. The cost analysis for each subcontractor must be completed and documented on a separate Cost Analysis Checklist. Some of the data items shown below may be provided to the TEC for cost realism analysis of for the work that is to be performed.

COST ANALYSIS CHECK LIST		
Data Item	Yes/NA	Comments
DIRECT LABOR		
1. Does the proposal identify actual labor hours/daily rate and costs incurred, as well as labor hours and costs to complete, and the timing associated with these labor hours and costs? (FAR 15.408, Table 15-2, IIB and III)	Choose an item.	Click here to enter text.
2. Identifying/evaluating methodology used to estimate direct labor cost.	Choose an item.	Click here to enter text.
a. Does the methodology used to estimate the direct labor cost appear reasonable for the project?	Choose an item.	Click here to enter text.
b. Is the proposed labor effort consistent with the Applicant/Offeror's estimating assumptions?	Choose an item.	Click here to enter text.
c. Is the proposed labor effort necessary to complete the contract/agreement?	Choose an item.	Click here to enter text.
d. Has the Applicant/Offeror accounted for all types of labor reasonably required to complete the contract? (TEC Assessment)	Choose an item.	Click here to enter text.
e. Are the proposed labor classes and pay levels consistent with the Applicant/Offeror's personnel classification system?	Choose an item.	Click here to enter text.
f. Are position class qualifications consistent with the knowledge, skills, and experience required to complete contract tasks?	Choose an item.	Click here to enter text.
g. Do the proposed labor classes and wage levels meet solicitation requirements?	Choose an item.	Click here to enter text.
h. Does the proposal include labor to complete	Choose	Click here to enter text.

COST ANALYSIS CHECK LIST		
the same task more than once (duplication of effort).	an item.	
i. Is the proposed labor mix consistent with the historical mix for the task?	Choose an item.	Click here to enter text.
j. Does the proposed mix represent the Applicant/Offeror's available labor force, or the skill mix actually needed to complete the contract?	Choose an item.	Click here to enter text.
k. Is it reasonable to account for this labor as a direct cost?	Choose an item.	Click here to enter text.
3. Analyzing Labor Hour Estimates		Click here to enter text.
a. Is the estimating method used by the Applicant/Offeror reasonable for the project?	Choose an item.	Click here to enter text.
b. Were costs applied in accordance with the Applicant/Offeror's standard accounting practices?	Choose an item.	Click here to enter text.
c. Does the estimate include a description of the process/ assumptions used to develop the estimate?	Choose an item.	Click here to enter text.
d. Is there significant information and historical data available to determine a more accurate cost estimate?	Choose an item.	Click here to enter text.
e. Does the cost involved warrant a more detailed estimating information, such as cost and data information?	Choose an item.	Click here to enter text.
4. Analyzing Labor-Rate Estimates	Choose an item.	Click here to enter text.
a. Are the proposed labor rates reasonable based on comparisons with the compensation practices of other firms for the same or similar services:	Choose an item.	Click here to enter text.
i. Of the same size?	Choose an item.	Click here to enter text.
ii. In the same industry?	Choose an item.	Click here to enter text.
iii. In the same geographic area?	Choose an item.	Click here to enter text.
5. Service Contract Act	Choose an item.	Click here to enter text.
a. If the acquisition is covered under the Service Contract Act (SCA) [FAR 22.10] do the proposed labor rates meet the minimum requirements of the applicable DOL Labor Wage Determination? (AIDAR 722)	Choose an item.	Click here to enter text.
b. If the proposed labor rates exceed the Wage	Choose	Click here to enter text.

COST ANALYSIS CHECK LIST		
Determination, is the difference reasonable?	an item.	
FRINGE BENEFITS		
<p>6. Does the proposal provide the fringe rates and factors by year utilized in the development of the proposal and, where applicable, the identification of a Negotiated Indirect Cost Rate Agreement (NICRA)?</p> <p>Does the Applicant/Offeror have a NICRA? Verify NICRA rates</p> <p>[If agreement has been reached with the Government on the use of the NICRA, require the Applicant/Offeror/applicant include a copy and describe its nature.] (FAR 15.408, Table 15-2,II.C)</p> <p>No NICRA did the Applicant/Offeror provide audit and financial information?</p>	Choose an item.	Click here to enter text.
7. Did the Applicant/Offeror identify the bases utilized to develop the fringe rates used in the proposal and, where applicable, the NICRA?	Choose an item.	Click here to enter text.
8. Is the bases used for development of the fringe rates in the proposal reasonable?	Choose an item.	Click here to enter text.
9. If the Applicant/Offeror proposed indirect rates in excess of their NICRA obtain assistance from M/OAA/CAS	Choose an item.	Click here to enter text.
10. If a NICRA <u>has not</u> been established with the Applicant/Offeror, consult with M/OAA/CAS who will provide assistance in reviewing the proposed rates.	Choose an item.	Click here to enter text.
11. Does the proposal include identification of any Cost Accounting System, non-compliances or other estimating efficiencies that may impact the proposed price? If yes, ensure any stated non-compliances are substantiated with sufficient rationale.	Choose an item.	Click here to enter text.
12. If the procurement is covered under the Service Contract Act (SCA) [FAR 22.10] do the fringe benefits meet the minimum requirements of the applicable DOL Labor Wage Determination? (AIDAR 722)	Choose an item.	Click here to enter text.
OVERHEAD and G&A COSTS		
13. Overhead Costs	Choose an item.	Click here to enter text.

COST ANALYSIS CHECK LIST		
a. Is the proposed overhead cost calculated and applied in accordance with the NICRA?	Choose an item.	Click here to enter text.
b. Does the proposal identify the bases used to develop the overhead rates used in the proposal and, where applicable, the NICRA?	Choose an item.	Click here to enter text.
c. Is the bases used for develop the fringe rates in the proposal reasonable?	Choose an item.	Click here to enter text.
d. If ceiling rates are in excess of the NICRA get assistance from M/OAA/CAS.	Choose an item.	Click here to enter text.
e. If a NICRA <u>has not</u> been executed with the Applicant/Offeror, ask M/OAA/CAS to provide assistance in reviewing the rates?	Choose an item.	Click here to enter text.
14. General and Administrative (G&A) Expenses	Choose an item.	Click here to enter text.
a. Does the proposal provide the G&A in accordance with its NICRA	Choose an item.	Click here to enter text.
b. Does the proposal identify the bases used to develop the G&A rate in the proposal and, where applicable, the NICRA?	Choose an item.	Click here to enter text.
c. Is the bases used for development of the G&A rate used in the proposal reasonable?	Choose an item.	Click here to enter text.
d. If the ceiling rate is in excess of the NICRA contact M/OAA/CAS	Choose an item.	Click here to enter text.
e. Does the proposal include identification of any CAS non-compliances, or other estimating efficiencies that may impact the proposed price	Choose an item.	Click here to enter text.
OTHER DIRECT COSTS (ODCs)		
15. Does the methodology used to estimate ODC cost appear reasonable for the project?	Choose an item.	Click here to enter text.
16. Is the proposed ODC effort consistent with the Applicant/Offeror's estimating assumptions?	Choose an item.	Click here to enter text.
17. Is the proposed ODC effort necessary to complete the contract?	Choose an item.	Click here to enter text.
18. Has the Applicant/Offeror accounted for all types of ODCs reasonably required to complete the contract?	Choose an item.	Click here to enter text.
19. Materials / Supplies / Equipment Costs	Choose an item.	Click here to enter text.
a. Are the cost estimating relationships (CERs) used for material costs proposed on other than a discrete basis (e.g., calculations/formulas/logic)	Choose an item.	Click here to enter text.

COST ANALYSIS CHECK LIST		
used to generate CERs presented with proposal?		
b. Are the CERs reasonable?	Choose an item.	Click here to enter text.
c. Is a consolidated priced Bill of Materials (BOM) included along with the basis for pricing (i.e. vendor quotes, purchase orders, history, competition, subcontract analysis)? For all items proposed, identify the item and show the source, quantity, and price.	Choose an item.	Click here to enter text.
d. Are the proposed type, quality, quantity, and number of units of each type of materials and/or supplies reasonable for implementing the technical approach?	Choose an item.	Click here to enter text.
e. Are the proposed costs of materials and/or supplies reasonable?	Choose an item.	Click here to enter text.
f. Does the proposal disclose any other known activity that could materially impact the costs such as existing excess material, changes in production methods, make versus buy decisions, company re-organizations, new business or new technology?	Choose an item.	Click here to enter text.
g. Is the proposed equipment reasonable for implementing the technical approach?	Choose an item.	Click here to enter text.
h. Is the cost of proposed equipment reasonable?	Choose an item.	Click here to enter text.
i. If the proposal identifies the need for government furnished material/tooling/equipment, state the bases determining the request as reasonable or unreasonable?	Choose an item.	Click here to enter text.
20. Travel Costs Does the program office need to provide concurrence on all trip cost?	Choose an item.	Click here to enter text.
a. Is the proposed number of trips appropriate and reasonable for the work to be performed?	Choose an item.	Click here to enter text.
b. Is the proposed duration of trips appropriate and reasonable for the work to be performed?	Choose an item.	Click here to enter text.
c. Are the proposed destinations of trips identified, appropriate and reasonable for the work to be performed?	Choose an item.	Click here to enter text.
d. Are the proposed number and types of people traveling appropriate and reasonable for the work to be performed?	Choose an item.	Click here to enter text.

COST ANALYSIS CHECK LIST		
e. Are the proposed transportation, lodging, meal rates reasonable and in compliance with FAR travel cost restrictions? [FAR 31.205-46 (a) and FAR 15.408, Table II.D]	Choose an item.	Click here to enter text.
21. Professional and Consultant Services	Choose an item.	Click here to enter text.
a. Is the service of a type identified as unallowable under Government contracts?	Choose an item.	Click here to enter text.
b. Is the proposed cost reasonable in relation to the service required?	Choose an item.	Click here to enter text.
c. Is the proposed cost necessary and reasonable considering the Applicant/Offeror's capability in a particular area?	Choose an item.	Click here to enter text.
22. Computer Services Costs	Choose an item.	Click here to enter text.
a. Is the amount of the proposed computer effort reasonable for the contract?	Choose an item.	Click here to enter text.
b. Are the proposed costs based on the computer resources that will actually be used to complete the required tasks?	Choose an item.	Click here to enter text.
c. Does the selected source offer the best value to the Applicant/Offeror and the Government?	Choose an item.	Click here to enter text.
23. Security / DBA / Branding / Environmental	Choose an item.	Click here to enter text.
a. Are proposed Security Costs reasonable for the work for the intended country?	Choose an item.	Click here to enter text.
b. Are proposed DBA insurance rates reasonable (in alignment with current policy-rates)?	Choose an item.	Click here to enter text.
c. Are proposed Defense Base Act (DBA) insurance rates reasonable for the proposed staffing level?	Choose an item.	Click here to enter text.
d. Are proposed costs of the Applicant/Offeror's Branding Implementation Plan and Applicant/Offeror's Marking Plan reasonable for commodities, equipment, program, project, communications, reports, publications, events, etc.?	Choose an item.	Click here to enter text.
e. If Environmental Compliance activities are a requirement, are the proposed compliance costs reasonable in light of the technical proposal?	Choose an item.	Click here to enter text.
SUBCONTRACTOR COSTS		
24. Is data provided showing the degree of competition and the basis for establishing the source and reasonableness of price for each subcontract	Choose an item.	Click here to enter text.

COST ANALYSIS CHECK LIST

priced on a competitive basis exceeding the threshold established at FAR 15.403-4 ? [see also FAR 15.408, Table 15-2, II(A)(1)]		
25. Did the proposal provide the basis for establishing the source and reasonableness of price for each subcontract priced on a noncompetitive basis exceeding the current threshold established at FAR 15.408 to include Price Analysis and Cost Analysis for subcontractors over the TINA threshold of \$700,000? (FAR 15.408, Table 15-2, Note 1) If the analyses are not included, provide a matrix showing item description, subcontractor, proposal receipt date, fact-finding completion date, Cost/Price Analysis completion date, negotiation completion date and date for contract award.	Choose an item.	Click here to enter text.
26. Was it determined whether a particular subcontract item meets the definition of a commercial item? Is the information identified as to how it is being used to determine price reasonableness, such as sales data or information other than cost or price data? (FAR 2.101)	Choose an item.	Click here to enter text.
27 Is a price analysis provided for each subcontracted item that meets the definition of a commercial item? Is the information identified as to how it is being used to determine price reasonableness, such as sales data or information other than cost or pricing data?	Choose an item.	Click here to enter text.
28. <u>Excessive Pass-through Charges- Identification of Subcontract Effort</u> : If the Applicant/Offeror intends to subcontract more than 70% of the total cost of work to be performed, does the proposal identify:	Choose an item.	Click here to enter text.
a. The amount of the Applicant/Offeror's indirect costs and profit applicable to the work to be performed by the subcontractor(s)?	Choose an item.	Click here to enter text.
b. A description of the added value provided by the Applicant/Offeror as related to the work to be performed by the subcontractor(s)? [FAR 15.408(n)]	Choose an item.	Click here to enter text.
FACILITIES CAPITAL COST of MONEY		
29. If facilities capital cost of money is proposed does the proposal include submission of Form CASB-CMF or reference to the NICRA and show the calculation of the proposed amount? [FAR 31.205-10] Additionally, is FCCM applicable to this cost proposal?	Choose an item.	Click here to enter text.

COST ANALYSIS CHECK LIST		
PROFIT or FEE		
30. If a fee is proposed, is it IAW statutory guidance at FAR 15.404-4(4) (c) (i) and weighted guidelines?	Choose an item.	Click here to enter text.
OTHER RELATED TOPICS		
31. If this is an incentive type contract, is the rationale acceptable for target cost, profit or fee, min/max, ceiling, and share ratio?	Choose an item.	Click here to enter text.
32. If the proposal is for a modification or change order, has the cost of work deleted (credits) and the cost of work added (debits) been provided in the format described in FAR 15.408, Table 15-2.III.B?	Choose an item.	Click here to enter text.
33. Is the cost of work deleted (credits) and the cost of work added (debits) reasonable?	Choose an item.	Click here to enter text.
34. Does the proposal disclose the nature and amount of any contingencies included in the proposed price? FAR 15.408, Table 15-2, I.C.(20(ii))	Choose an item.	Click here to enter text.
35. Is the amount of any contingencies included in the proposed price reasonable?	Choose an item.	Click here to enter text.
36. If Economic Price Adjustments are being proposed, is the rationale and application provided for the proposed price indices fair and reasonable? [FAR 16.203-4(a)(1)]	Choose an item.	Click here to enter text.