Developing An Effective Cost Estimate for Federal Grant Funded Contracts

Forensic & Integrity Services Insurance & Federal Claim Services

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Preparing an independent cost estimate before issuing a procurement using federal grant funds can help demonstrate that funds are effectively and efficiently spent.

As the federal government continues making significant investments in federal stimulus and disaster recovery programs, while also expanding oversight and enforcement efforts to investigate potential fraud, waste and abuse, it is more critical than ever for federal grant recipients to establish and document cost reasonableness. The Uniform Guidance, which sets the standards for managing federal grants, requires that grant recipients prepare an independent cost estimate before receiving bids or proposals. Failure to comply with this requirement could result in the awarding agency recovering the funds, withholding payments or disallowing all or part of the costs.

Normally, adequate price competition establishes cost reasonableness; however, the requirement to perform a cost or price analysis (2 CFR § 200.324) can be critical in determining whether bids received are reasonable. Bids that are too high or too low can be equally problematic.

Keep these 10 tips in mind.

Independent cost estimates vary significantly depending on the good or service being procured. For example, some relevant considerations can include the project size, complexity, availability of materials, project type, sole sourcing, leading construction practices, codes and standards, and other relevant information. There is no one-size-fits-all approach for developing a cost estimate, but these 10 tips can help establish that federal funds were used appropriately:

1. **Clearly define the scope of work to be performed**, including any specifications, requirements and timelines.
2. **Identify all potential costs associated with the project**, including direct costs (such as materials and labor) and indirect costs (such as overhead, profit and administrative expenses).
3. **Use historical data, published unit costs and other relevant sources to estimate costs** and document all assumptions and methodologies used.
4. **Verify that all cost elements are included in the estimate** and that there are no omissions or duplications.
5. **Confirm that the estimate is realistic and reflects current market prices**, including factors that can affect prices, such as availability of resources or supply chain issues.
6. **Consider any potential risks or uncertainties that could impact the project** and factor these into the estimate using appropriate contingencies.
7. **Validate the estimate by comparing it with similar projects** and soliciting feedback from subject-matter professionals.
8. **Clearly communicate the estimate to all relevant stakeholders**, such as end users, procurement officials and federal funding agencies.
9. **Review and update the estimate regularly throughout the project lifecycle** to account for any changes in scope, schedule or other factors.
10. **Confirm that the estimate is retained within the procurement file**, including any underlying data and supporting documentation.

When dealing with federal grant funds, preparing a detailed independent cost estimate before soliciting bids or proposals can be essential in demonstrating that federal grant funds were used appropriately; mitigating the risk of fraud, waste and abuse; and complying with federal procurement requirements.

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