MEMORANDUM

Date: June 2, 2003

To: All Acquisition Branch Employees

From: **Department of General Services**
Procurement Division

Subject: **FAIR AND REASONABLE EVALUATION METHODOLOGY**

Attached is the approved policy for how to evaluate fair and reasonable pricing for procurement transactions under $5,000.00. This policy responds to the GC 14838.5(c) that requires this consideration.

Be advised that all Procurement personnel in the capacity of making acquisitions for goods or information technology (IT) goods and services should adhere to the attached policy.

If you have any questions relating to the policy statement, please contact Judy Heringer at 375-4348.

RUSS GUARNA
Acting Acquisitions Branch Manager
Procurement Division
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RG:jh

Attachment

Fair and Reasonable Evaluation Methodology

Background

In accordance with GC section 14838.5(c), all procurement and contracting staff (buyers) shall obtain 2 price quotes from responsible suppliers for acquisitions of goods, services, or information technology goods and services estimated to cost less than $5,000 whenever there is reason to believe that a response received from a single source may not be fair and reasonable.

The process of determining "fair and reasonable" can be done either objectively or subjectively and it consists of a system in which a buyer analyzes a proposed acquisition price and based on their professional expertise comes to a conclusion on whether the price to be paid is reasonably close to that price which would be paid by another prudent buyer under similar circumstances.

Fair and Reasonable Determination

The following process shall be used to determine when a standard of "fair and reasonable" has been obtained for transactions under $5,000 regardless of the method used to: 1) make the acquisitions (whether on a Std. 65 purchase order form or Std. 213 (210) contracting form), or 2) pay for the acquisition (whether directly by the State Controllers Office or via the State CAL-Card and or revolving fund processes, etc.).

For a buyer to attain the standard of "fair and reasonable", **at least one of the primary or secondary techniques** listed below must be used for every acquisition of goods, service or information technology goods and services under $5,000. If the standard of fair and reasonable cannot be attained, then at least 1 other quote (or in the case of CMAS or Master Agreements 2 additional offers) from another responsible supplier must be obtained and documented to support the assertion that the acquisition is fair and reasonable. For all transactions, the support for each assertion of fair and reasonable must be verifiable and/or documented in the transaction file and made available during compliance reviews.

1. **Primary (preferred) Techniques for Determining "Fair and Reasonable"**
   a. **Price Comparison** - A buyer has obtained and documented quotes or offers within the last 12 to 18 month period from other responsible suppliers which provides evidence that a price obtained is deemed fair and reasonable. *

   b. **Catalog or Market Price** - The price offered is supported by an established and verifiable catalog or market pricing media issued by a responsible supplier and/or through an established reputable forum. In addition, the pricing structure provided is one that a prudent buyer would accept as a reasonable representation of existing market value. *

   c. **Controlled Pricing** - The price offered is set by law or regulation; competitively bid master or statewide contracts, etc.

2. **Secondary Techniques for Determining "Fair and Reasonable"**
   a. **Historical Pricing** - A buyer is able to demonstrate that other transactions occurring in the past (i.e., the last 12 to 18 month period) exist that show that historical prices for similar acquisitions have yielded no material change in cost. Note – the definition of "material" for this technique is deemed to be greater than a 15% increased difference between current and historical pricing.

   b. **Cost/Benefit Analysis** – A buyer can demonstrate that their level of experience in the procurement field provides a sufficient knowledge base which clearly indicates that the acquisition cost is so low that the cost to the state of verifying the pricing fairness would most likely be more than any potential benefit that could be reasonably gained from searching out the market place for lower priced comparable acquisitions.

* These comparisons need to be based on identical situations (or those with little variance that doesn't impact the price). For example, comparable includes quantity of items, complexity of the procurement and terms and conditions, timing (when did the acquisition take place) and the marketplace (price inflation and/or reduction).