

# Establishing cost reasonableness for COVID-19

Forensic & Integrity Services  
Insurance & Federal Claims Services

Part 4 of 6 in a series that focuses on lessons learned and leading practices in COVID-19 disaster cost recovery

As discussed in [Part 1](#), [Part 2](#) and [Part 3](#), there are many areas to the COVID-19 disaster recovery to be addressed. For COVID-19 costs to be considered eligible for reimbursement by FEMA, the costs must be necessary to respond to the COVID-19 pandemic and considered reasonable. A cost is reasonable if “in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded” (2 CFR 200.404).

A leading practice is to establish and document cost reasonableness for all procurements where federal funds may be anticipated. Not retaining all necessary documentation to prove cost reasonableness could lead to deobligation of federal funds.

## 1 Leading practices to consider

- ▶ Create a cost estimate before soliciting work
  - ▶ An independent cost estimate should align with the proposed purchase and, in the case of the COVID-19 pandemic, the FEMA Project Worksheet scope of work. The cost estimate should be clear, align with pricing being requested from potential bidders or suppliers, and show how the figures were derived. The cost estimate can be prepared in-house or using an external company. The preparer must have the appropriate knowledge, competence and experience and must fully understand the scope of work.
- ▶ Analyze costs prior to awarding work
  - ▶ Review and evaluate the separate cost elements, line items and proposed profit in proposals to determine a fair and reasonable price for purchases. Methods include comparison of costs proposed by different vendors, comparison of proposed costs to the cost estimate and analysis of any significant deviations found in the comparisons.
- ▶ Determine cost reasonableness
  - ▶ There is no “one size fits all” solution to determining if costs are reasonable. Each case should consider their specific circumstances. Consider the following questions when determining if a cost is reasonable:
    1. Is a cost generally recognized as ordinary and necessary as part of the response to COVID-19?
    2. Were sound business practices used when incurring the cost?
    3. How does the cost compare to market prices for comparable goods or services?
    4. Were there any deviations from established practices and policies?
    5. Was there an emergency or exigent circumstance?
  - ▶ Several variables could impact costs during the pandemic. When analyzing cost reasonableness, consider how the following affect costs:
    1. Shortages
    2. Emergency timelines
    3. Supply chain disruption
    4. Remote working
    5. Geography-related complications
    6. Project-specific complexities
    7. Environmental issues
    8. Economies of scale

## 2 What to do if a cost estimate was not prepared

- ▶ If a cost estimate or cost/price analysis was not created prior to contract award, you may still be able to establish cost reasonableness. Current market data, historical data, industry published prices or other available data could be used for a quantitative analysis and supplemented with a detailed qualitative analysis.

Establishing costs reasonableness can greatly support a disaster response. By following these leading practices, state and local governments can reduce the potential for costs being considered unreasonable and ineligible for reimbursement by FEMA.





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