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**DEFENSE CONTRACT AUDIT AGENCY**

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MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
CORPORATE AUDIT DIRECTORS, DCAA  
ASSISTANT DIRECTORS, HQ, DCAA

SUBJECT: Audit Alert on Requirement for Prime Contractor Cost and Price Analyses

The purpose of this audit alert is to provide answers to Frequently Asked Questions (see Enclosure) on the requirement for prime contractors to conduct appropriate cost or price analyses to establish the reasonableness of proposed subcontract prices and to encourage the use of early engagement to facilitate the prime contractor's completion of its cost or price analyses.

Early engagement can be instrumental in assisting the Contracting Officer with developing a plan to complete its review of prime and subcontract proposals and obtaining field pricing assistance in a timely manner. As part of early engagement, the audit team should participate in pre-solicitation procurement meetings to discuss general issues related to the procurement, such as the identification of expected major subcontracts proposals, the prime contractor's completion schedule for conducting cost or price analyses as required by FAR 15.404-3(b), and the need for Government assistance (e.g., assist audit). In addition, auditors may provide general advice on what constitutes an adequate proposal and explain the FAR 15.408 (Table 15-2) requirements for adequate cost or pricing data. These early engagement activities help to establish expectations on timely contractor and subcontractor support, identify procurement milestone requirements, including those for assist audits, and ensure that we are performing timely, quality audits that comply with auditing standards.

FAO personnel with questions regarding this audit alert should contact their Regional Offices/Corporate Audit Directorates. Regional Office/Corporate Audit Directorate personnel with questions regarding this audit alert should contact Pricing and Special Projects Division at (703) 767-3290 or via e-mail at DCAA-PSP@dcaa.mil.

/Signed/

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Enclosure:

Frequently Asked Questions

DISTRIBUTION: E

## FREQUENTLY ASKED QUESTIONS

**Question 1:** The buying command wants to request an audit of a subcontractor proposal at the time of the subcontractor management-approved proposal submission. Can the FAO audit a subcontract proposal prior to the prime contractor's submission of its management-approved proposal?

**Answer:** Yes. In accordance with DFARS Procedures, Guidance, and Information (PGI) 215.404-3(a)(i), Contracting Officers may request an audit of subcontract proposals prior to the completion of the prime contractor's analysis of the subcontract proposal if the contracting officer believes that such assistance is necessary to ensure the reasonableness of the total proposed price. Examples of such situations are discussed in DFARS PGI 215.404-3(a)(i).

FAOs should be responsive to these requests provided the following guidelines are followed:

1. The subcontract proposal has been approved by the appropriate subcontractor management;
2. The prime contractor has submitted the subcontract proposal to the Government with an assertion from the prime contractor that they intend to contract with the subcontractor;
3. The subcontract forward pricing proposal is adequate for examination based on the requirements set forth in FAR Subpart 15.4, Contract Pricing; and
4. The contracting officer, prime contract auditor, or next higher-tier subcontract auditor requests an audit of the subcontract proposal and informs the subcontract auditor that the contracting officer has determined subcontract audit support is required based on DFARS PGI 215.404-3(a)(i).

**Question 2:** Question No. 17 of the DCAA Proposal Adequacy Checklist reads as follows:

*Is there a price/cost analysis establishing the reasonableness of each of the proposed subcontracts included with the proposal?  
If the offeror's price/cost analyses are not provided with the proposal, does the proposal include a matrix identifying dates for receipt of subcontractor proposal, completion of fact finding for purposes of price/cost analysis, and submission of the price/cost analysis?*

If the prime contractor or higher-tier subcontractor has not completed the required cost or price analyses but has included a matrix identifying dates for receipt of subcontractor proposals, should Question No. 17 be marked as adequate or inadequate? Additionally, should the audit team consider the overall proposal adequate or inadequate for audit and proceed with the audit if this inadequacy exists?

**Answer:** FAR 15.404-3(b) requires the prime contractor or higher-tier subcontractor to conduct appropriate cost or price analyses to establish the reasonableness of the proposed subcontract prices and include the results of these analyses in the prime contractor's proposal. As such, the inclusion of a matrix does not overcome the inadequacy of the prime contractor not submitting the cost or price analyses with the proposal. If the prime contractor or higher-tier subcontractor

## FREQUENTLY ASKED QUESTIONS

has not completed the cost or price analyses, as required by FAR 15.404-3(b), Question No. 17 of the DCAA Proposal Adequacy Checklist should be marked as inadequate (i.e., answer “no” under “Adequate?”). In the Comments field, indicate that the prime contractor or higher-tier subcontractor has not completed the required cost or price analyses but has included a matrix. We are in the process of modifying the DCAA Proposal Adequacy Checklist so that Question No. 17 will be a two-part question, allowing for a separate response to each question.

Whether or not the overall proposal is adequate for audit depends on many factors including materiality and the significance of the noted inadequacies. Generally, this inadequacy alone will not result in the audit team’s inability to proceed with the audit. The audit team should notify the Contracting Officer that if the cost or price analyses are not received by fieldwork completion, the proposed subcontract costs will be reported as unsupported (less any potential questioned costs).

**Question 3:** Does an audit of a subcontract proposal relieve the prime contractor from its responsibility to perform cost or price analyses of the subcontract proposal?

**Answer:** No. A Government audit of the subcontract proposal does not relieve the prime contractor of its responsibilities. FAR 15.404-3(b) requires that prime contractors and higher-tier subcontractors conduct cost or price analyses of each subcontract proposal and include the results of these analyses in the price proposal.

**Question 4:** If the prime contractor is denied access to the subcontractor’s cost data, does the prime contractor have to perform any analysis of the subcontractor’s proposal?

**Answer:** Yes. At a minimum, the prime contractor should perform and document its (1) efforts to complete the FAR 15.404-1(b) required price analysis of its subcontractor and (2) coordination with the Contracting Officer to obtain any necessary audit/pricing support from the Government.

**Question 5:** If the prime contract audit team has requested an assist audit of a subcontract, but the prime contractor has NOT performed the FAR 15.404-3(b) required cost or price analyses to establish the reasonableness of the proposed subcontract price by fieldwork completion, should the prime audit team classify the proposed subcontract costs as unresolved or unsupported?

**Answer:** Unsupported. Regardless of whether or not the prime contract audit team requested or received an assist audit (subcontracts are part of the subject matter), if the prime contractor has not completed its cost or price analyses, the subcontract cost should be shown in the prime contractor proposal audit report as unsupported. However, if the prime contract audit team has received an assist audit and there are questioned costs, the prime contract audit team should question the corresponding subcontract costs in the prime contractor proposal audit report and classify the balance of the proposed subcontract costs as unsupported.

## FREQUENTLY ASKED QUESTIONS

**Question 6:** If the prime contractor has NOT performed the FAR 15.404-3(b) required cost or price analyses to establish the reasonableness of the proposed subcontract price, are there any additional requirements for the prime contractor proposal audit report?

**Answer:** Yes. The prime contract audit team should determine the contractor's completion schedule for the FAR 15.404-3(b) required cost or price analyses and the audit report should include the completion schedule in an Appendix entitled, "Subcontracts Requiring Contractor Cost/Price Analyses." In the Appendix, the audit team should include the names of the subcontractors, proposed amounts, and the following explanatory note:

*"FAR 15.408, Table 15-2 requires prime contractors and higher-tier subcontractors to conduct price analysis of all subcontractor proposals and a cost analysis of each subcontract proposal for which certified cost or pricing data are required. In coordinating the need for assist audits, we informed [insert name(s) of ACO/PCO or representatives] on [insert date] of the contractor's planned schedule for completing the analyses. As of [insert date fieldwork completed], [insert contractor's name] had not completed the required analyses for the subcontractors listed above. The contractor's scheduled date for completing the analyses is [insert revised date(s)]."*

**Question 7:** If the prime contractor has performed the FAR 15.404-3(b) required cost or price analyses to establish the reasonableness of proposed subcontract prices, and an assist audit has been requested but not received, should the prime contract audit team classify the proposed subcontract costs as unresolved or unsupported?

**Answer:** Unresolved. The failure to receive requested assist audit reports will necessitate classifying the applicable proposed amounts as unresolved, unless the prime contractor has not completed its cost or price analyses or the cost or price analyses are inadequate, in which case the prime contract audit team should classify the subcontract costs as unsupported. Early engagement, however, helps to facilitate timely assist audits and reduce the amount of unresolved costs.

**Question 8:** When subcontract costs are not part of the subject matter under audit, what is the expectation of the audit team in performing procedures relating to subcontract costs?

**Answer:** The audit team is responsible only for performing audit procedures on the subject matter under audit. Therefore, the audit team is not responsible for performing any steps pertaining to subcontract costs, including steps to ensure the prime contractor has done appropriate cost or price analyses of the subcontractors. As such, prior to agreeing to the subject matter under audit, the audit team, with DCMA support, should engage early with the Contracting Officer to discuss known risk factors and to recommend audit services accordingly.