



DEFENSE CONTRACT AUDIT AGENCY

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IN REPLY REFER TO

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

SUBJECT: Audit Alert on Auditing Long Term Agreements (LTAs)

The purpose of this audit alert is to provide clarification that DCAA can perform an examination of a subcontractor proposal, submitted to support the award of a Long Term Agreement (LTA), prior to issuance of a Government Request for Proposal (RFP) when such an examination will benefit the Government and is requested by the Contracting Officer.

An LTA is an agreement entered into between a prime or higher-tier contractor and a subcontractor to establish pricing for future purchases of specified items. It is common for contractors to enter into an LTA with a subcontractor in advance of a specific Government RFP; therefore, DCAA audit assistance may be necessary to ensure the reasonableness of the subcontract price. Before initiating the audit, the following is required:

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's management that it intends to award an LTA with the subcontractor and identifies the benefit of the LTA to the Government;
3. The subcontract proposal is adequate for examination based on the requirements set forth in FAR Subpart 15.4, *Contract Pricing*; and
4. The Contracting Officer has determined that subcontract audit support is required based on DFARS PGI 215.404-3 *Subcontract pricing considerations*.

FAO personnel with questions regarding this audit alert should contact their Regional/Corporate Audit Directorates. Regional Office/Corporate Audit Directorate personnel with questions regarding this audit alert should contact Ms. Suzanne Windes, Program Manager, Pricing and Special Projects Division at (520) 794-5206 or via e-mail at DCAA-PSP@dcaa.mil.

/Signed/
Jason Besser
Chief, Pricing and Special Projects
Policy and Plans

Enclosure:
Frequently Asked Questions

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FREQUENTLY ASKED QUESTIONS

Question 1: How does auditing an LTA pricing prior to the issuance of a Government RFP facilitate the procurement process?

Answer: An LTA can benefit the Government by providing better subcontract pricing due to a more stabilized business volume and reduced acquisition cycle time. Early engagement with the Contracting Officer can be instrumental in identifying LTAs that will be used in the pricing of an upcoming award. The audit team can discuss known risk factors and recommend audit services accordingly. Providing a timely and quality audit allows the Contracting Officer to take the necessary actions early, thereby reducing the delays in the acquisition cycle.

Question 2: The subcontract proposal reflects requirements greater than the expected Government solicitation, should I audit the entire subcontract proposal?

Answer: The audit team should discuss the subject matter covered by the audit with the PCO to obtain clarification on what subcontract audit support is required. This might require discussion with additional PCOs when more than one prime level program is involved. The subject matter should have a direct correlation with a benefit to the Government on future acquisitions. The audit team should request the contractor to identify all Government solicitations that the LTA is intended to address.

Question 3: Are LTAs an acceptable pricing method on Government proposals?

Answer: LTAs are an acceptable pricing method since FAR allows a prime contractor to reach a price agreement with a subcontractor in advance of an agreement with the Government. Therefore, it is common for prime contractors to submit independently a request for quote to its subcontractors in anticipation of future Government solicitations. The prime contractor might be establishing a business arrangement that addresses a specific expected prime level requirement (e.g., a specific annual procurement of a given weapon system) or it may be to satisfy multiple different procurements (e.g., multiple DoD and Foreign Military Sales (FMS) procurements for one or more weapon systems).

The prime contractor will use the long-term pricing agreements resulting from these requests as a basis of estimate in its cost estimates. FAR 15.404-3(c) provides that the contractor obtain and analyze certified cost or pricing data before awarding any subcontract expected to exceed the cost or pricing data threshold, unless an exception in FAR 15.403-1(b) applies. This requirement applies to all subcontract awards regardless of how far in advance a price agreement is reached (see FAR 15.404-3(c)(4)). If the subcontract value under the LTA is expected to exceed the cost or pricing threshold and none of the expectations in FAR 15.403-1(b) apply, the contractor must obtain and analyze certified cost or pricing data as of the date of the LTA execution.