Contractors enter into Long Term Agreements (LTAs) in order to establish firm pricing for future requirements. LTAs are good things, because you can achieve volume discounts today based on the expected total volume of orders expected over the contract's duration. In contrast, if you are just issuing individual Purchase Orders then each one stands alone in terms of pricing; you get the price associated with the volume of the PO.

In addition, if you enter into a LTA you only have to establish price reasonableness once. You can compete one time and award the low bidder (or best value bidder) an LTA, and then you can use that price reasonableness determination to support your pricing for years to come. (Although we have seen DCAA take the position that price reasonableness must be evaluated annually; which kind of defeats the purpose. If your DCAA or DCMA has taken that position, call us because we know how to solve that one.)

All in all, LTAs are good things but, if the government waits until you propose LTA pricing in a proposal submitted in response to an RFP, then DCAA may want to review information that's a year (or more) old at that point. That can delay the audit and the audit report and the negotiation—and that impacts PALT.

Thus, DCAA issued MRD **18-PSP-002(R)** on 15 February 2018—though for some unknown reason it took the audit agency until June to actually publish the audit guidance on its website. The audit guidance clarifies that auditors can review the reasonableness of LTA pricing independently of a government solicitation. In other words, a contracting officer can request a DCAA review of LTA price reasonableness before the LTA pricing is incorporated into a contractor cost proposal.

According to the MRD, there are four preconditions that need to be in place before the auditors can perform an audit. They are:

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

4.

The Contracting Officer has determined that subcontract audit support is required based on DFARS PGI 215.404-3, Subcontract pricing considerations

Importantly, it seems that DCAA envisions that the contractor will engage with its contracting officer (and the auditors) *prior to negotiating and finalizing the LTA pricing*. Based on what we see (above), the prime contractor will request a proposal from the LTA supplier and then submit it to a contracting officer for … what? Not approval.

The CO should not be approving a commercial agreement between a prime contractor and its subcontractors. Given that there is no prime contract is place (and not even an RFP), there is no advance consent requirement in place. So we don't know what the CO is supposed to think when they receive a notice of intent to award an LTA. Further, it's not clear to us which CO has the authority to request DCAA audit support in the circumstances in which this is all suppose to take place. Certainly it's not the PCO. Perhaps it's the ACO? But if so, how was that authority assigned?

Nevertheless, there is now an official path to having governmental review of proposed LTA pricing, and presumably acceptance of price reasonableness, independently from any proposal submitted in response to an RFP.

We don't know what would happen if DCAA determined that the proposed prices were not reasonable. We mean … it would definitely be a flag that there will be future problems with use of the LTA. But what remedy would the CO have, since the costs would not have been charged

to any government contract at the point at which a DCAA auditor would be opining on price reasonableness?

Questions. We have so many questions....

Anyway, this is the plan. Don’t mind our questions; you should move briskly forward to solicit LTA pricing because, despite DCAA’s ostensible role in the process, having LTAs is definitely the smart move.