



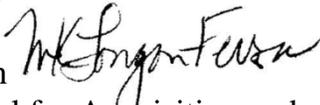
# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **INFORMATION:** Audit Announcement –  
Ensuring Price Reasonableness Prior to  
Awarding Fixed-Price Contracts  
Project No. 13Z3002Z000

Date: March 13, 2013

From: Mary Kay Langan-Feirson   
Assistant Inspector General for Acquisition and  
Procurement Audits

Reply to  
Attn. of: JA-60

To: DOT Senior Procurement Executive  
Director, Audit and Evaluation, FAA

Since 2011, the Department of Transportation (DOT) has obligated \$2.1 billion annually in fixed-price contracts for goods and services to build and support a transportation system that meets national interests.<sup>1</sup> The Federal Acquisition Regulation (FAR) requires agencies to establish fair and reasonable contract prices prior to awarding contracts, which helps ensure that they receive the best value for their acquisitions.<sup>2</sup> As such, agencies are to perform a fair and reasonable price determination—or price reasonableness review—prior to awarding a fixed-price contract. If agencies lack sufficient information to establish fair and reasonable prices, such as through the conduct of adequate price competition, the FAR requires contracting officers to conduct price analysis reviews or to request contract audits from external parties to help ensure a reasonable price before contract award. Pre-award price reasonableness reviews are especially critical for fixed-price contracts because the pre-award phase is generally the only opportunity the Government has to mitigate the risk of paying unreasonably high prices for fixed-price contracts.

Historically, DOT and its Operating Administrations have used the Defense Contract Audit Agency (DCAA) to support its price reasonableness reviews.<sup>3</sup> However, DOT

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<sup>1</sup> For fiscal years 2011 and 2012, according to data DOT reported in the Federal Procurement Data System-Next Generation, as of December 2012.

<sup>2</sup> Although the Federal Aviation Administration is not subject to FAR, it requires the use of similar processes to ensure the agency receives the best value for dollars spent, including the use of pre-award audits.

<sup>3</sup> DOT entered into a memorandum of understanding with the Department of Defense to obtain price reasonableness reviews from DCAA.

faces increasing challenges in obtaining these audits due to budget constraints and recent DCAA policy changes and staffing shortages.<sup>4</sup> In the absence of such external audit support, agency contracting officers are still required to conduct price reasonableness reviews and obtain adequate training to do so.

Given the importance of price reasonableness determinations in mitigating the risk of accepting unreasonably high prices on fixed-price contracts, we are initiating an audit of DOT's use of these pre-award reviews. Specifically, our objective is to determine the extent to which and how DOT and its Operating Administrations obtain, perform, and use pre-award price reasonableness reviews to establish fair and reasonable prices on fixed-price contracts.

We plan to begin this work immediately and will contact your audit liaison to schedule an entrance conference. If you have any questions or need additional information, please contact me at (202) 366-5225; Anthony Wysocki, Program Director, at 202-493-022; or Aisha Evans, Project Manager, at 202-366-2072.

cc: DOT Audit Liaison, M-1  
FAA Audit Liaison, AAE -100  
FHWA Audit Liaison, HAIM-13  
FMCSA Audit Liaison, MC-PRS  
FRA Audit Liaison, RAD-41  
FTA Audit Liaison, TBP-30  
MARAD Audit Liaison, MAR-392  
NHTSA Audit Liaison, NPO-310  
PHMSA Audit Liaison, PH-4  
RITA Audit Liaison, RTC-1  
SLSDC Audit Liaison, SLSDC

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<sup>4</sup> For example, DCAA will now only conduct external contract audits on fixed-price contractor proposals over \$10 million.