



DEPARTMENT OF THE AIR FORCE  
WASHINGTON DC



OFFICE OF THE ASSISTANT SECRETARY

JUN 15 2007

MEMORANDUM FOR ALMAJCOM-FOA-DRU/CC

FROM: SAF/AQ  
1060 Air Force Pentagon  
Washington, DC 20330-1060

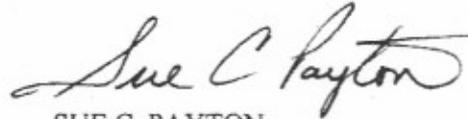
SUBJECT: Air Force Policy for Award Fee Contracting

Over the past several years there has been considerable criticism of the way in which award fee contracts are used in the Air Force and across the Department of Defense. As a result of these criticisms and Congressional legislation, the Office of the Under Secretary of Defense (Acquisition and Technology) (OUSD) (AT&L), Defense Procurement and Acquisition Policy (DPAP) has issued additional policy with respect to award fee contracts which I wholeheartedly endorse. It is absolutely critical that our acquisition strategy planning include robust discussions of contract type and incentives to ensure that we are making the right decisions in the contract. We have recently changed the Air Force Acquisition Strategy Panel (ASP) template to focus some of the discussion on this important topic. I expect every Program Executive Officer (PEO) and Head of the Contracting Activity (HCA) to likewise make it a point of discussion as you plan for contracts managed at your level. It is important to remember that per FAR 16.405-2 (b)(1)(i), cost-plus-award-fee contracts are suitable for use when the work to be performed is such that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance or schedule. To this end, award fee contracts should be rare, particularly in system, development and demonstration contracts.

In accordance with OUSD (AT&L) DPAP policy, when award fee contracts are used the award fee will be earned only when the contractor meets the minimum essential contract requirements. Absolutely none of the award fee pool may be earned or paid if the contractor fails to meet the minimum essential contract requirements. In addition, unless determined inappropriate by the HCA, a base fee shall always be included in award fee contracts.

The OUSD (AT&L) DPAP policy establishes a requirement for a determination and finding (D&F) when it is determined that objective criteria do not exist and that it is appropriate to use a cost-plus-award fee contract. The HCA is the approval authority with the ability to delegate the approval one level below the HCA. For the Air Force, to the extent the authority is delegated by the HCA, it can only be delegated to the MAJCOM Senior Contracting Official. In AFMC and AFSPC the delegation can be extended to the Senior Center Contracting Official. A copy of the signed D&F and supporting documents must be forwarded within ten days of execution to SAF/AQCK.

Finally, we must all work together to ensure that contract incentives meet our goal to accomplish delivery of superior quality products and services on time and within cost, as well as enabling industry to make a fair profit for a job well done. SAF/AQC will issue a change to the Air Force FAR Supplement to implement the policy initiatives I have discussed above. Please direct any questions regarding this memorandum to Heidi Johnson, SAF/AQCP at (703) 588-7062.



SUE C. PAYTON  
Assistant Secretary of the Air Force  
(Acquisition)

Attachment:  
OUSD (AT&L) DPAP Ltr, dtd 24 Apr 2007

cc:  
AFPEO/AC  
AFPEO/C2&CS  
AFPEO/CM  
AFPEO/EM  
AFPEO/F-22  
AFPEO/JSF  
AFPEO/SP  
AFPEO/SR  
AFPEO/WP  
SAF/ACE  
ALMAJCOM/DRU/FOA(Contracting)



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

APR 24 2007

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
(ATTN: ACQUISITION EXECUTIVES)  
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Proper Use of Award Fee Contracts and Award Fee Provisions

Over the past several years there has been an increased use of cost-plus-award-fee contracts and award fee provisions, particularly for development efforts and low rate initial production (LRIP) efforts. The purpose of this memorandum is to state the Department's policy with regard to the proper use of award fee contracts and award fee provisions.

FAR 16.104 requires that we take into account a number of factors when selecting the proper contract type. Among them are: price competition, price analysis, cost analysis, type and complexity of requirement, urgency of requirement, period of performance or length of production run, the Contractor's technical capability and financial responsibility, the adequacy of the contractor's accounting system, concurrent contracts, and the extent and nature of proposed subcontracting and acquisition history.

In particular, with regard to the use of award fee contracts, FAR 16.405-2 (b)(1)(i) states that: "The cost-plus-award-fee contract is suitable for use when – (i) The work to be performed is such that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance or schedule."

The fact is that most, if not all, of our development and LRIP contracts contain numerous objective criteria. For a variety of reasons, expediency being among the most prevalent, over the past several years we have chosen not to construct contracts that appropriately contain the means to measure objective and subjective criteria.

*It is the policy of the Department that objective criteria will be utilized, whenever possible, to measure contract performance.* In those instances where objective criteria exist, and the Contracting Officer and Program Manager wish to also evaluate and incentivize subjective elements of performance, the most appropriate contract type would be a multiple incentive type contract containing both incentive and award fee criteria (e.g., cost-plus-incentive/award fee, fixed-price-incentive/award fee) or a fixed price/award fee contract.



If it is determined that objective criteria do not exist and that it is appropriate to use a cost-plus-award fee (CPAF) contract, then the Head of the Contracting Activity (HCA) must sign a determination and finding (D&F) that "the work to be performed is such that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance or schedule." The HCA may delegate this approval authority, within the contracting chain, no lower than one level below the HCA.

**The following shall apply to all award fee provisions:**

Award fee may be earned in accordance with the following:

<u>Rating</u>	<u>Award Fee Pool Earned</u>
Unsatisfactory	0%
Satisfactory	No Greater Than 50%
Good	50%-75%
Excellent	75%-90%
Outstanding	90%-100%

**Definitions of Ratings**

Unsatisfactory	Contractor has failed to meet the basic (minimum essential) requirements of the contract.
Satisfactory	Contractor has met the basic (minimum essential) requirements of the contract.
Good	Contractor has met the basic (minimum essential) requirements of the contract, and has met at least 50% of the award fee criteria established in the award fee plan.
Excellent	Contractor has met the basic (minimum essential) requirements of the contract, and has met at least 75% of the award fee criteria established in the award fee plan.

Outstanding

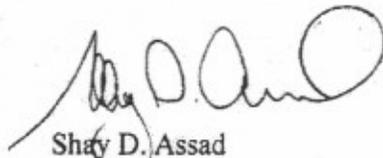
Contractor has met the basic (minimum essential) contract requirements and has met at least 90% of the award fee criteria established in the award fee plan.

Contracting Officers are required, together with the Program Manager, to determine the basic contract requirements that will be specified in the contract. In consultation with the Program Manager and the Fee Determining Official, the Contracting Officer shall derive the award fee criteria to be included in the Award Fee Plan among the trade space of various technical/programmatic, cost and schedule contract objectives.

The policies included in this memo are effective for all solicitations issued commencing on 1 August 2007, and will be incorporated into the DFARS or DFARS Procedures, Guidance and Information, as appropriate.

For ACAT I programs, copies of all D&Fs shall be provided to the Director, Defense Procurement and Acquisition Policy, within 30 days of the end of the quarter, beginning with the quarter ending September 30, 2007. Senior Procurement Executives of the Military Departments and Other Defense Agencies shall be responsible for establishing the level of reporting for non-ACAT I contracts within their organizations.

Please direct any questions regarding this memorandum to Mr. Bill Sain, Senior Procurement Analyst, Defense Procurement and Acquisition Policy (Office of Cost, Pricing, and Finance) at 703-602-0293 or [bill.sain@osd.mil](mailto:bill.sain@osd.mil).



Shay D. Assad  
Director, Defense Procurement  
and Acquisition Policy