DEPARTMENT OF THE AIR FORCE

AWARD-FEE GUIDE

12 July 2010

(Revised 13 August 2010)

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Summary of Changes

Date	Paragraph	Description
13 Aug 10	1.0.2	Deleted: • SECAF Memo, 4 Apr 06, Contract Incentives • SAF/AQ Memo, 15 Jun 07, Air Force Policy on Award Fee Contracts Added: • SAF/AQC Memo, 16 Jul 10, Delegation of Approval for Use of Award-Fee Contracts

Chapter 1
General

1.0 Introduction

1.0.1 The purpose of this guide is to provide the acquisition team assistance in utilizing Award-Fee contracts. Award-Fee contracts are a type of incentive contract and, as such, should be used only when other types of fixed price or cost reimbursement contracts are inappropriate. Under an Award-Fee arrangement, as in other incentive fee arrangements, the Government and the contractor share the risk associated with the negotiated contract terms, such that the contractor's profit rate varies based on the effectiveness of its performance as measured against certain cost, technical, and/or schedule metrics. Federal Acquisition Regulation (FAR) 16.4 and Defense Federal Acquisition Regulation Supplement (DFARS) 216.4 describe when incentive contracts are appropriate.

1.0.2 This Guide has been revised because current contract award and incentive fee structures are not achieving the Air Force goals of motivating superior contractor technical performance and ensuring compliance with cost and schedule objectives. 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. Contractors have received award-fees amounting to 90% - 100% of the available award fee pool for meeting technical performance requirements despite the fact they were simultaneously experiencing significant cost overruns and schedule delays. As a result of the criticism 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. In light of these concerns, it is absolutely critical that the acquisition strategy planning process include robust, cross-functional discussions about contract type and the likely effectiveness of any proposed contract incentives intended to motivate the contractor to excel in the performance of the contract and/or to concentrate its resources and efforts in areas important to program success. To this end, prior to making a contract type determination or selecting a contract incentive structure, the acquisition team should consult its local (or SAF) Program Management and Acquisition Excellence (PM&AC) office and read the following policy memos**:**

- DPAP Memo, 24 Apr 07, Proper Use of Award-Fee Contracts and Award-Fee Provisions
- SAF/AQC Memo, 16 Jul 2010, Delegation of Approval for Use of Award-Fee Contracts.
  NOTE: Select your EMAIL certificate (when prompted) to access the SAF/AQC memo.

1.0.2.1. What's changed?

1. 0.2.1.1 Incorporates recommendations in the GAO Report, Dec 05, entitled "Defense Acquisitions, DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes," (page 33 of the report)

1.0.2.1.2. Incorporates Statutory requirements addressed in the FY07 and FY08 National Defense Authorization Acts and incorporates the latest changes to FAR Part 16.4, FAR Case 2008-008 (Interim Rule published in the Federal Register on 14 Oct 09).

1.0.2.1.3. Consolidates AFMC and AFSPC Guides into the Air Force Guide.

1.0.2.1.4. Includes new OUSD (AT&L) DPAP and Air Force guidance.

1.0.2.1.5. Deletes the use of Rollover.

1.0.2.1.6. Updates the reference page.

1.0.2.1.7. Samples of award-fee plans will be posted to the AF Contracting Guides, Templates, & Samples page (as the plans become available).

1.0.3. The first key step to establishing appropriate and effective contractor incentives is developing an acquisition strategy on the basis of cross-functional collaboration. As a part of this process, the acquisition team should carefully consider the existing business environment as it relates to the relevant service or product, to include the various influences and factors that impact the formation and the outcome of solid business relationships.

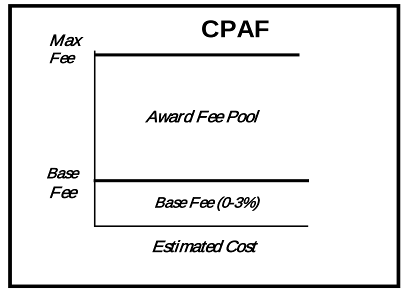

Programmatic
Financial
Contractual


Cultural
Structural
Political
Regulatory and Statutory

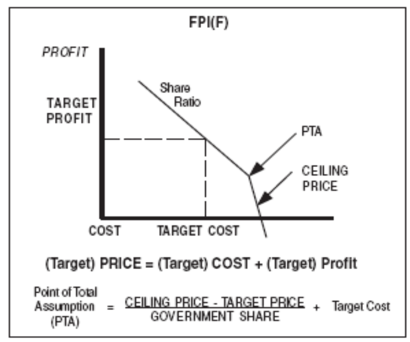

Industry Dynamic
Performance
Corporate Strategy
History
Entry Barriers
Program Size
Competitive Environment
Primary Incentive Areas
Contract Type
Future Effort
Inherent Risk
Acquisition Phase

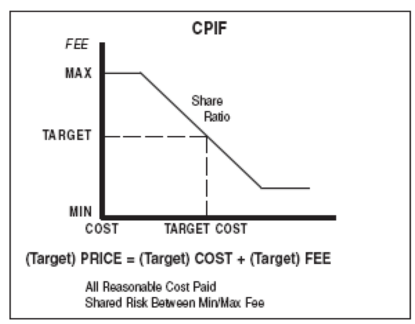
The following graphs provide visual examples of how fee is earned under award/incentive fee arrangements: Incentive contracts provide an alternative to fixed price or cost reimbursement contracts by imposing some risk on the contractor without requiring a full assumption of pricing risk.

- **<u>Award Fee:</u>** Typically, award-fee contracts emphasize multiple aspects of contractor performance in a wide variety of areas, such as quality, timeliness, technical ingenuity, and cost effective management



- **<u>Incentive Fee:</u>** Incentive-fee contracts usually focus on cost control, although they can also be used to motivate contractors to achieve specific delivery targets or performance goals in areas such as missile range, aircraft speed, engine thrust, or vehicle maneuverability





1.0.4 If a program's primary incentive focus is on cost and schedule (i.e., objectively verifiable criteria), then fixed-priced incentive fee (FPIF) or cost-plus incentive fee (CPIF) contract types are the preferred choice. As a general rule, acquisition teams should consider the FPIF type first, then CPIF. The acquisition team should select a cost-plus award fee (CPAF) or fixed-price contract with award fee (FPAF) only upon determining that FPIF and CPIF type contracts are not appropriate.

Regardless of the type of incentive contract chosen, it is Air Force policy that all contract incentives emphasize cost, schedule, and technical performance as they relate to program outcomes and successful end-item delivery or performance. The profit objectives for incentive contracts should be based on technical complexity, management complexity, schedule management, business arrangement, and cost management and efficiency. An example of an appropriate use of award fee contracts is for research and development when the goal is an exceptional design and the primary criteria is performance.

1.0.5 In order to facilitate discussion and to share proven incentive strategies across the acquisition workforce, the Department of Defense has established the "Award and Incentive Fees" Community of Practice (CoP) under the leadership of the Defense Acquisition University (DAU). The CoP will serve as the repository for all related materials including policy information, related training courses, and examples of award fee arrangements.

1.1 Award-Fee Contracts

1.1.1 Award-fee arrangements, when properly crafted and administered, can be a valuable tool for motivating contractor performance efforts in areas critical to program success. However, acquisition teams must be careful to utilize award fee arrangements only when they are likely to achieve the intended results. For example, the FAR 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, schedule, and technical performance; **(ii)** The likelihood of meeting acquisition objectives will be enhanced by using a contract that effectively motivates the contractor toward exceptional performance and provides the Government with the flexibility to evaluate both actual performance and the conditions under which it was achieved; and **(iii)** Any additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits," as documented by a cost benefit analysis to be included in the Determination and Findings referenced in FAR 16.401(e)(5)(iii)."

To this end, it is Air Force policy that programs use objective criteria, whenever possible, to measure contractor performance. In those instances where objective criteria exist, and the Contracting Officer (CO) and program manager also wish to evaluate and incentivize subjective elements of performance, the most appropriate contract type would be a multiple incentive (or hybrid) type contract containing both incentive and award fee criteria (e.g., cost-plus-incentive fee/award-fee, fixed-price-incentive/award-fee or a fixed-price/award-fee contract). If objective criteria do not exist and the acquisition team determines that CPAF is the appropriate contract type, the Head of the Contracting Activity (HCA) must sign a determination and finding (D&F) specifying that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance or schedule. (See FAR 16.401(d).)

1.1.2 In fixed-price contracts with award-fee, contractor profit is built into the contract price. The contractor's efficiency in contract performance provides the opportunity to improve profit margin. Generally, the award-fee is an additional incentive to motivate the contractor to provide optimum performance in areas that are deemed critical to successful execution of contract requirements.

1.1.3 Satisfactory performance should result in the contractor earning a minimal portion of the award-fee—whether in the CPAF or FPAF context. Under no circumstances shall fee for satisfactory performance exceed 50% of the available award fee pool for the award fee period. Performance that exceeds a satisfactory level should result in proportionate increases in earned award fee. It is Air Force policy that award-fee recommendations shall fully reward only realized outstanding performance leading to successful end-item delivery or performance. Therefore, if a contractor's performance is less than satisfactory, then the contractor is not entitled to any award fee (exclusive of the base fee, if applicable). Section 7.6 of this guide specifies the award-fee ratings which shall apply to all award fee provisions to be included in all solicitations. Also see FAR 16.401(e)(3), (Table 16-1).

1.1. 4 Award-fee contracts require periodic evaluations of contractor performance throughout the life of the contract. The award-fee process allows the Government to assess the contractor's performance and appropriately recognize their accomplishments. The Government has the flexibility to consider both the contractor's performance levels and the conditions under which these levels were achieved during the evaluation process.

1.1.5 In selecting an award-fee incentive and developing the award fee strategy, the acquisition team should consider interrelated factors such as the dollar value, complexity and criticality of the acquisition; the availability of Government resources to monitor and evaluate performance; and the benefits expected to result from such Government oversight. Award fee contracts should be used only when the contract amount, performance period, and expected benefits warrant the additional administrative and management effort. Once the decision has been made to include the award-fee incentive, the award-fee plan and organizational structure must be tailored to meet the needs of that particular acquisition.

1.2 Applicable Sections of the FAR and its Supplements

Applicable sections of FAR 16.3 and 16.4 and its supplements (i.e. DFARS and AFFARS) should be reviewed in conjunction with this guide when contemplating the use of the award-fee incentive. Additionally, applicable sections of the Department of Defense Financial Management Regulation 7000.14-R, Volume 3, Chapter 8 should be consulted before finalizing an Award-Fee Plan.

PLEASE NOTE: at this time there is a disconnect between the new FAR language (interim rule) and current DFARS language (Part 16.216) pertaining to award/incentive contracting. A companion DFARS case to address these disconnects is being worked and should be published in the near future.

Chapter 2
Definitions

2.0 Definitions

2.1 Program Management and Acquisition Excellence (PM&AE) Office. The office at a Center that is designed to support acquisition and sustainment programs. Provides specific acquisition help/advice/assistance as a "trusted agent" to the program execution leadership (MDA, SAE, PEO, and Center Commander), thereby ensuring the quality and timeliness of acquisition and sustainment products to the war fighter.

2.2 Acquisition Plan (AP). The AP is a document that reflects the strategy for fulfilling the agency's requirements in a timely manner and at a reasonable cost, including managing the acquisition. For contents of a written acquisition plan, see FAR 7.105 and its supplements. AFFARS 5307.104 provides a list of acquisition plan types such as LCMP/SAMP/CAMP/IPS/AP/PSMP.

2.3 Acquisition Strategy Panel (ASP). The panel that evaluates program acquisition strategies. The ASP Chair shall determine the panel membership and the required content. ASPs should take place as early as possible in the acquisition planning process to develop a disciplined approach to achieve an efficient and effective acquisition. (AFFARS 5307.104-90)

2.4 Award-Fee Plan. Captures the award-fee strategy. It addresses the terms and conditions (evaluation criteria, methodology to be used to evaluate contractor's performance, etc.) that govern the award fee process.

2.5 Award-Fee Pool. The total of the available award-fee for each evaluation period and base fee (if applicable) for the life of the contract.

2.6 Award-Fee Review Board (AFRB). The AFRB evaluates the contractor's overall performance for the evaluation period in accordance with the Award-Fee Plan. The board is comprised of **Government personnel only** whose experience in the acquisition related areas allows them to analyze and evaluate the contractor's overall performance. The minimum required members are a Chairperson, the CO and a Recorder.

2.7 Base Fee. The fixed amount of fee that is established at the inception of the contract and is automatically paid throughout the performance of the contract. It is allocated to each award-fee evaluation period and is only applicable to CPAF type contracts. The base fee may range from 0% to 3% of the estimated contract cost amount, minus cost of money. (DFARS 216.405-2 (b)(iii)).

2.8 Bona Fide Need Rule [31 U.S.C. 1502(a)]. The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with Section 1502 of Title 31.

2.9 Cost-Plus-Award-Fee Contract. This is a cost-reimbursement type contract that may provide for a fee consisting of:

(1) A base amount fixed at inception of the contract, and

(2) An award amount that the contractor may earn in whole or in part during performance that is sufficient to provide motivation for excellence in such areas as quality, timeliness, technical ingenuity, and cost-effective management. The amount of the award-fee to be paid is determined by the Government's evaluation of the contractor's performance in terms of the criteria stated in the contract. This determination and the methodology for determining the award fee are unilateral decisions made solely at the discretion of the Government.

2.10 Evaluation Criteria. The contract must state the criteria against which the contractor's performance will be evaluated. It must be structured in such a way to emphasize the most important aspects (cost, schedule and performance) of the contract requirements to facilitate the contractor doing its utmost to deliver outstanding performance. Evaluation criteria must be clear to let the contractor know what is required in order to earn a Satisfactory or higher rating.

2.11 Evaluation Period. The total contract performance is divided into evaluation periods. The end date for these periods can be specific dates or milestones.

2.12 Fee Determining Official (FDO). Designated by position in the award-fee plan. The FDO makes the final determination regarding the amount of award-fee earned during the evaluation period by the contractor.

2.13 Fixed-Price Contracts with Award-Fee. Award-fee provisions may be used with fixed-price contracts when the Government desires to motivate a contractor and other incentives cannot be used because contractor performance cannot be measured objectively. These contracts should:

(1) Establish a fixed price (including normal profit) for the effort. This price will be paid for satisfactory contract performance. Award-fee earned (if any) will be paid in addition to the fixed price (see FAR 16.404); and

(2) Be supported by an award fee plan that provides for periodic evaluation of the contractor's performance. (See FAR 16.401(e)(3))

(3) Not involve the use of base fees.

2.14 Multiple Incentive Contract . A contract that has more than one type of incentive such as award fees and other incentive fees.

2.15 Performance Monitors/Quality Assurance Personnel (QAP). Personnel designated to work with the contractor on a daily basis and monitor performance against the evaluation criteria. These personnel are working level experts in their assigned evaluation areas of responsibility. This monitoring is the foundation of the award fee evaluation process.

2.16 Provisional award-fee payment. A payment that is made based on having successful performance within an evaluation period prior to a final evaluation for that period (see DFARS 216.405-2).

2.17 Purpose Statute (31 U.S.C. 1301(a))**.** Appropriations shall be applied only to the objects for which the appropriations were made.

2.18 Reallocation. The process by which the Government moves a portion of the available award-fee from one evaluation period to another for reasons such as Government-caused delays, special emphasis areas, and changes to the Performance Work Statement (PWS).

2.19 Rollover. " Rollover of unearned award-fee" means the process of transferring unearned award-fee, which the contractor had an opportunity to earn, from one evaluation period to a subsequent evaluation period, thus allowing the contractor an additional opportunity to earn that previously unearned award fee. **The use of rollover is prohibited.** (FAR 16.401(e)(4))

Chapter 3
Selecting an Award Fee Approach

3.0 Overview

Like all incentive type contracts, award fee contracts are designed to obtain specific acquisition objectives by motivating contractor efforts that might not otherwise be emphasized and to discourage contractor inefficiency and waste. Under an award-fee arrangement, the Government establishes a system intended to motivate contractors to achieve contractual objectives by rewarding them for their outstanding performance on the basis of periodic performance evaluations. To this end, the award fee arrangement establishes a disciplined performance assessment process under which program personnel must thoughtfully review the contractor's performance as measured against specified evaluation criteria. Finally, award-fee arrangements provide the Government with the flexibility to evaluate both actual performance and the conditions under which it was achieved – and, if necessary, to institute changes in the award-fee plan over time (via modifications to the award fee plan) to accommodate changes in Government emphasis or concern.

Before entering into an award-fee contract, the CO must document the contract file with a D&F approving the use of this approach, as described in Paragraph 1.1.1 of this Guide. Additionally, the CO must ensure that the acquisition plan specifically addresses the program's intention to use an award fee contract and sets out the justification for doing so (i.e., why it is the most suitable contract type for the acquisition). The contract file documentation should include the cost benefit analysis used in determining that the additional administrative effort and cost required to monitor and evaluate performance under the award fee arrangement are justified by the expected benefits of using this contract type. When an Acquisition Plan is not required a separate memo for the record should be prepared. (See FAR 16.401(e)(1)(iii)).

3.1 Criteria for Selecting Award-Fee Contracts

Award-fees arrangements may be used in contracts for design, research and development, major weapon systems, production items, operational contracting, services, logistics support, construction, or manpower support. Refer to FAR 16.401 and its supplements for additional guidance on selecting the appropriate contract type. Before entering into an award-fee arrangement, the acquisition team should consider all the factors summarized in the following sections. Your team should receive support and guidance from your local or SAF PM&AE office; for centers without a PM&AE, teams should use the local clearance and program support office.

3.1.1 Contractor Motivation. An award-fee arrangement, properly structured, should motivate the contractor to concentrate resources in areas critical to program success. The award-fee plan should identify the specific areas of performance that are most important to the program's success, particularly in the areas of technical requirements, schedule and cost. An objective in negotiating an award-fee arrangement is to achieve effective communication between Government and contractor personnel at all levels to secure desired outcomes.

3.1.2 Administrative Cost

3.1.2.1 Although monitoring performance is necessary for all contract types, the award-fee evaluation process is a structured approach that requires additional documentation, continuous evaluation, and briefings. As such, the administrative costs associated with award-fee contracts are generally higher than those associated with other contract types. With this in mind, acquisition teams must examine, consistent with the "cost/risk benefit analysis" requirements of FAR 16.401(e)(1)(iii), whether the administrative costs associated with implementing and sustaining structured award-fee processes throughout the life of the contract will exceed the expected benefits of utilizing the award fee arrangement.

3.1.2.2 The most obvious Government administrative cost is the labor resource dedicated to continuously monitoring contractor performance. Because the Government will conduct award fee evaluations throughout the award-fee period of the contract (including option periods), total administrative costs consist of the sum the administrative costs associated with all evaluations. In preparing the cost benefit analysis, acquisition teams should also consider the costs (inclusive of man-hours) associated with educating and training technical personnel, performance monitors, AFRB members, and other related acquisition personnel. Acquisition teams should also consider the estimated time required to properly monitor/evaluate contractor performance, determine contractor rating(s), and provide briefings to the FDO. Note that because estimates regarding both the anticipated benefits of using an award-fee arrangement and the associated administrative costs will be judgmental in nature, the acquisition team may not be able to relate the results of the cost benefit analysis in completely quantifiable terms.

3.1.2.3 DFARS 216.470 extends the cost benefit analysis requirement to other types of contracts by indicating that the "award amount" portion of the fee may be used in other types of contracts under certain conditions. The fifth condition in the DFARS states, "The administrative costs of evaluations do not exceed the expected benefits."

3.1.3 Contract Value. Acquisition teams should not use dollar thresholds as the sole determinant for selecting an award fee contract type. Estimated contract dollar amount is only one measure of value and may not be the most important consideration. Instead, acquisition teams should consider contract value in terms of the criticality of the acquisition and its impact on related efforts.

3.1.4 Additional Considerations

Below are the key elements and considerations acquisition teams should address when establishing award-fee type contracts:

- Confirm that a CPIF or FPIF contract is not the more appropriate contract type

- Consider whether a multiple incentive contract with a combination of incentive fees and award fees, to include use of negative incentives, may be appropriate

- Ensure that award-fee evaluation criteria are structured to permit the Government to measure the contractor's performance against the acquisition objectives, defined in terms of contract cost, schedule, and performance

- Identify the key elements of the acquisition to ensure success

- Establish a process that requires evaluating contractor performance from a "ground up" perspective – i.e., begins with an assumption of a 0% award fee payout and works up from there toward a maximum payout of 100%

- Ensure award-fee is appropriately spread over all evaluation periods to incentivize the contractor throughout the performance of the contract (avoid front-loading the award-fee)

- Structure the award-fee to ensure delivery of quality end item(s) or performance of service

- Ensure that the award-fee evaluation results correlate with the Contractor Performance Assessment Reporting System (CPARS) Policy Guide and the System Metric and Reporting Tool (SMART) data.

3.2 Multiple Incentive Contracts

3.2.1 FAR 16.102(b) allows contracts negotiated under FAR 15 to be of any type or combination of types that will promote the Government's interest (see FAR for exceptions). Accordingly, there may be instances when, considering the risks and/or critical issues associated with a program, the most appropriate contract type is one that uses a combination of award and incentive fees. Any contract that contains more than one incentive arrangement is a multiple incentive contract. If multiple incentives are used, the amounts allocated to each incentive and fee area must be sufficient to adequately motivate and reward a contractor to excel in each. Acquisition teams must balance be careful to balance the incentives so that no one incentive is either so insignificant that it offers little reward for the contractor or so large that it overshadows all other areas and neutralizes their motivational effect. All multiple incentive contracts must include a cost incentive (or constraint) that operates to preclude rewarding a contractor for outstanding technical performance or delivery results when the cost of those results outweighs their value to the Government (see FAR Part 16.402).

3.2.1.1 Types of Incentives

Cost/Financial Incentives. A cost incentive relates profit or fee directly to results achieved by the contractor. These incentives are normally based on a shared formula between the Government and the contractor (i.e., fixed-price incentive (FPI) or cost plus incentive fee (CPIF) contracts) or the payment of a fee from an award fee pool. To be effective the incentives must be quantitative, clearly related to the desired outcome, and within a reasonable range. The arrangement must offer rewards commensurate with the risks the contractor assumes. The arrangement must not create a situation in which cost to the Government is over-emphasized or under-emphasized relative to other program objectives.

Performance Incentives. Performance incentives are designed to relate profit to the contractor's achieved results based on specific targets. Performance incentives should be used when they will induce better quality performance and may be positive, negative, or a combination of both. A performance incentive should be applied selectively to motivate efforts that may not otherwise be emphasized, and to discourage inefficiency. Incentives should apply to the most important aspects of the work, rather than to each individual task. Incentivizing too many requirements dilutes the monetary importance of each requirement to the contractor and also creates an administrative burden for the Government.

Schedule/Delivery Incentives. Schedule incentives focus on motivating a contractor to meet or exceed minimum delivery requirements. They can be defined in terms of early delivery, attaining or exceeding milestones, or meeting rapid-response or urgent requirements. Sometimes, schedule risks may be very high since the customer requirements may not remain firm and the impact of changes cannot be predicted with reasonable accuracy. Reward to the contractor for accepting schedule risks must be consistent with the level of risk it assumes. As an example, pre-production schedule objectives and risks would differ significantly from production schedule objectives and risks. The pre-production challenges usually are unknowns in technology and instability in requirements and funding -- placing more risk on the contractor. On the other hand, manufacturing unknowns that drive a production schedule, such as supply of materials and parts, and the labor represent a greater risk to the customer.

Acquisition teams should consider the full range of contract incentives, make incentives challenging but attainable, and remember that incentives must meet the needs of both parties. It is important to consider funding implications when setting up incentives. It is also important that contract incentives not be considered frozen (or inflexible) at the moment of award. There are many reasons the Government may need to change the incentive structure during contract performance. For example, program managers may change the areas of emphasis to reflect evolving priorities or contract changes that warrant changes to the incentives. At appropriate times during the life of the contract, government managers may need to reassess the underlying assumptions which could lead to changes to the incentive arrangement.

3.2.2 Utilizing a multiple incentive contract requires careful consideration since the complexity of the contract can lead to problems in the areas of payment and contract administration. In instances when a multiple incentive contract contains multiple fund cites, the contracting officer must require that the financial data be segregated: (1) to allow payments of the appropriate funds (based on each contract type) by line item, and (2) to provide specific management information and accountability. Award-fee dollars cannot be used for other types of incentive fees. The program must establish separate pools for award fees and other contract type arrangements.

Chapter 4
Award Fee Pool

4.0 Overview

The award-fee pool is the total available award-fee (and base fee, if applicable) for each evaluation period over the life of the contract. Base fee is paid independently from the performance evaluation. Since contractors must affirmatively earn the available award-fee during the evaluation period (by demonstrating sound performance), **the program should approach its award fee evaluation with the view that the contractor begins each evaluation period having earned 0% of the available award fee and "works its way up" from there.** In other words, evaluators should not work from the assumption that contractors begin with 100% of the available award-fee and have deductions taken against that amount to arrive at the evaluated fee for the evaluation period. However, a 100% payout of the award-fee amount should be a mutual goal of the parties as it demonstrates the program's objectives were clearly communicated and achievable.

4.1 Base Fee

4.1.1 Base fee is only applicable to CPAF contracts. It is fixed at the inception of the contract and is regularly paid throughout the performance of the contract. Base fee is normally included on a contractor's voucher for costs incurred and is approved as part of the payment process. **Base fee is not allowed in FPAF contracts**.

4.1.2 Base fee is a fixed amount received by the contractor independent from the contractor's evaluated performance. The base fee may range from 0% to 3% (DFARS 216.405-2(c)(iii)) of the estimated contract cost excluding facilities capital cost of money. The decision regarding how much base fee to include in the award fee pool should be based on the complexity of the acquisition strategy; a more complex acquisition should equate to a higher base fee. The use of base fee enhances a contractor's cash flow, but it may be unnecessary if the CPAF portion is combined with other types of contracts or incentives. When developing a base fee objective for CPAF contracts, the contracting officer shall follow the guidance outlined in DFARS 215.404-74, Fee requirements for cost-plus-award-fee-contracts.

4.2 Establishing the Award-Fee Pool

4.2.1 Acquisition teams must carefully consider a variety of budgetary and programmatic issues when establishing the award-fee pool. Potential fees must be sufficient to motivate the contractor to achieve excellence in overall performance but should not be excessive for the effort.

4.2.2 The FAR does not require a particular approach when it comes to establishing the amount of an award-fee pool; however, the approach should be logically developed and reflect the complexity of the acquisition effort.

4.2.3 When developing the award-fee pool acquisition teams should consider the following factors:

- Amount of fee that will be sufficient to compensate (and incentivize) the contractor for outstanding performance.

- Complexity of the work and sufficient incentives to motivate the contractor to use only their most experienced and capable workers for contract performance.

- Reliability of the cost estimate in relation to the complexity and duration of the contract task.

- Degree of cost responsibility and associated risk that the prospective contractor will assume as a result of a contract with an award-fee clause.

- Amount of base fee. Apply the DoD Offset Policy for Facilities Capital Cost of Money in calculating the pre-negotiation base fee amount.

4.2.4 Acquisition teams can use different methods to establish the award-fee pool. The methods listed below are possible approaches:

- Review past acquisition history/experience.

- Research current award-fee pools for similar efforts.

- Establish evaluation criteria and apply a percentage based on risk and importance.

4.2.5 Offerors may propose an appropriate award-fee percentage and minimum fee/profit in their draft and/or final proposals. The acquisition team may consider including a fee percentage range in the RFP; however, this approach can complicate the contract award evaluation process. If this approach is used, the acquisition team should ensure the fee amounts proposed are neither excessive nor so low that they fail to achieve the desired motivational benefits of an award fee incentive. Moreover, the evaluation criteria included in the RFP must be clear and concise to allow for a sound best-value decision.

4.3 Allocation of Award-Fee by Evaluation Period

4.3.1 Allocation

The award-fee pool is allocated over all award-fee evaluation periods. After establishing the amount of the award-fee pool, the acquisition team should deduct the base fee (if any) and allocate the remainder of the pool over the various award-fee evaluation periods. The approach for distributing the remainder of the award-fee pool will depend on the acquisition strategy and individual circumstances of each procurement. In the example below, the base fee (2% or $100,000) is allocated equally throughout the award fee portion of the contract. The available award-fee allocated for each evaluation period is the maximum amount that can be earned during that particular evaluation period. The available award-fee may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is greater risk or critical milestones during specific evaluation periods, a larger portion may be distributed to those periods. This approach permits the Government to place greater emphasis on those evaluation periods. The same holds true for additional award fee amounts based on modifications to the contract. Distribution of any additional available award-fee dollars should be tailored to the specific acquisition. The dollar amounts in Figure 4-1 are provided for the examples in 4.3.2 and 4.3.3 below.

Estimated Cost minus COM	$5,000,000
Award-Fee (10%)	$ 500,000
Base Fee (2%)	$ 100,000
Total	$5,600,000

Figure 4-1, Example of Fee Allocation

4.3.2 Equal Allocation

The total available award fee ($500,000) may be allocated equally among the evaluation periods as shown below if the risks and type of work are similar throughout the various evaluation periods.

EVALUATION PERIODS	1	2	3	4	Total
Allocation (%)	**25%**	**25%**	**25%**	**25%**	**100%**
Base Fee	25,000	25,000	25,000	25,000	$100,000
Allocation ($)	$125,000	$125,000	$125,000	$125,000	$500,000

Figure 4-2, Example of Equal Award Fee Allocation

This approach may be appropriate in the case of an acquisition for Information Technology support services, where the Government likely will require the same level of performance from the contractor throughout the performance period.

4.3.3 Unequal Allocation

The acquisition team may use an unequal allocation of the available award-fee in order to motivate the contractor's performance to correspond to varying degrees of emphasis or risk over the course of the period of performance. In this case, the acquisition team should establish key performance events (events on the critical path), and award-fee amounts should be allocated based upon the criticality of the events. At the same time, the team should reserve a sufficient amount of award-fee for the final delivery or performance outcome. The preferred approach is to give greater weight to performance events that occur toward the end of an evaluation period. If the contract has a short initial evaluation period so the contractor can become familiar with the work, the initial evaluation period may have a smaller allocation while the remaining available award fee is divided equally among the remaining evaluation periods. Conversely, if the contract effort requires the contractor to become familiar with the work quickly, the initial evaluation period may have a larger allocation. Acquisition teams should keep in mind that the proper allocation of the available award-fee remains an effective incentive throughout contract performance. Accordingly, acquisition teams should avoid front loading award-fee, a practice which could detract from the contractor's incentive to perform well toward the end of the contract.

EVALUATION PERIODS	1	2	3	4	Total
Allocation (%)	10%	26%	40%	24%	100%
Allocation ($)	$50,000	$130,000	$200,000	$120,000	$500,000

Figure 4-3, Example of Unequal Award Fee Allocation

4.3.4 Award-Fee Hourly Rate Allocation

For cost reimbursement contracts, the available award-fee amounts can also be calculated by multiplying the maximum or estimated hours by an established award-fee hourly rate before the evaluation period begins. The available award-fee amount at the end of each evaluation period is then determined by multiplying the number of hours incurred or authorized, whichever is less, factored by the award-fee hourly rate. The contractor's performance must still be evaluated at the end of the evaluation period to determine the award-fee amount earned by the contractor. When this method is used, acquisition teams should use extra care to ensure that the number of hours the contractor expended bears a reasonable relationship to the accomplishments during the period. The motivation for cost control is minimal in these situations, especially where the type or quality of labor used can fluctuate.

4.3.5 Reallocation

Reallocation is the process by which the Government moves a portion of the available award-fee from one evaluation period to another because of **Government-caused** delays, adjustment of critical performance events, changes to the Performance Work Statement (PWS) or Statement of Work (SOW), etc. Reallocation actions are not normally associated with the contractor's performance. Reallocation may be accomplished unilaterally prior to the start of the affected award-fee evaluation period. Within an award-fee evaluation period, reallocation may only be accomplished by the mutual agreement of the parties.

4.4 Provisional Award-Fee Payments

4.4.1 DFARS 216.405-2(b) allows for provisional award-fee payments under certain circumstances only in CPAF contracts. Provisional award-fee payments allow the contractor to bill periodically for a percentage of available award-fee within an evaluation period prior to a final evaluation for that period. This practice is intended to improve contractor cash flow, foster a healthy relationship between the Government and the contractor, and further the benefits of the award fee incentive.

4.4.2 Provisional award-fee payments may be authorized by the CO on a case-by-case basis, provided those payments:

4.4.2.1 Are made no more frequently than monthly;

4.4.2.2 Are limited to no more than:

- For the initial award fee evaluation period, 50% of the award-fee available for that period; and

- For subsequent award-fee evaluation periods, 80% of the evaluation score for the prior evaluation period times the award-fee available for the current period. For example, if the contractor received 90% of the award-fee available for the prior evaluation period, provisional payments for the current period shall not exceed 72% (90%x80%) of the award-fee available for the current period.

4.4.2.3 Are superseded by an interim or final award-fee evaluation for the applicable evaluation period.

4.4.2.4 May be discontinued, or reduced in such amounts deemed appropriate by the CO, when the CO determines that the contractor has not achieved a level of performance commensurate with the amount of the provisional payment. The CO shall notify the contractor in writing of any discontinuance or reduction in provisional award-fee payments.

4.4.3 Provisional Award Fee Payments may be authorized by the CO only after an assessment of contractor performance has been accomplished and the FDO has determined that contractor performance warrants payment of the provisional award-fee amount. At the end of the evaluation period, the formal award- fee evaluation process is conducted and the FDO determines the earned award-fee amount for that period. The contracting officer is then authorized to pay the difference between the provisional payment already provided and the FDO's final award fee determination. In instances where the sum of provisional payments for a particular evaluation period is greater than the FDO's final award fee determination for that period, the contractor shall be required to liquidate the debt as prescribed in FAR 32.606, *Debt Collection*. The CO must document this action in the contract file for permanent reference.

4.4.4 COs should use provisional award-fee payments judiciously, giving consideration to any unusual cash flow concerns and the length of the evaluation period. Contractor requests for provisional award-fee payments should provide the rationale supporting the need for an improved cash flow and the expected benefits to the specific acquisition. The CO’s determination authorizing the use of provisional award fee payments for a contract shall be maintained in the contract file. The determination should address:

- The feasibility of reducing the length of evaluation periods versus the use of provisional award-fee payments;

- The benefits derived by providing the contractor improved cash flow;

- The risk, if any, in granting provisional award-fee payments, and

- Other factors that make utilization of provisional award-fee payments in the Government’s best interest.

4.4.5 CPAF contracts authorizing use of provisional award fee payments shall include the following elements in the Award-Fee Plan:

- Maximum percentage of available award-fee that will be paid on a provisional basis (See 4.5.2.2 above);

- Frequency of payments;

- Method of recovery of excess award-fee paid; and

- Unilateral Government right to reduce or suspend provisional award-fee payments based on the COs determination the contractor is not performing at a level commensurate with the provisional rate.

PLEASE NOTE THAT PENDING DFARS CASE WILL AMEND DFARS TO NO LONGER ALLOW PROVISIOAL AWARD FEE PAYMENTS

4.5 Negative Incentives

4.5.1 Acquisition teams may consider using negative incentives in award fee contracts. Negative incentives are generally structured to require a contractor to forego an award-fee or to pay back previously earned award-fee in situations where the end item or service turns out to be a partial, total, or permanent failure. Another negative incentive approach is to require the contractor to re-perform the service or correct the deficiency at no additional cost to the Government.

Potential considerations when implementing a negative incentive:

- May include schedule incentives based on the amount at risk for the contractor. Must be measured against the importance of the schedule and total cost to the Government.

- Negative fee (payback of earned award fee) reinforces expectation of complete success.

- Reduction of Award Fee in case of contract overrun.

4.5.2 Acquisition teams should use negative incentives only after careful deliberation. The complexity involved in establishing and administering negative incentives may lead to problems in such areas as funding, expired funds, accurate accounting data, increased risk of errors within DFAS, as well as complicated reconciliation efforts for both the contractor and the program office.

Chapter 5
Funding

5.0 Overview

5.0.1 Award-fee pools are budgeted as part of the total contract budget. When planning and budgeting for award-fees, acquisition teams should adhere to the bona fide need and funding propriety (or purpose) rules. The bona fide need rule, 31 U.S.C. 1502(a), provides that: "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title." The propriety of funds rule, 31 U.S.C. 1301(a), says, "Appropriations shall be applied only to the objects for which the appropriations were made." An award-fee requirement is a bona fide need of the same fiscal year and appropriation that financed the effort with which the award-fee is associated. From a propriety of funds' standpoint, award-fees are inherently inseparable from the work with which they are associated. This means the financial manager will plan and budget award-fees in the same fiscal year and appropriation as the related effort. This includes award-fee amounts that cross fiscal years.

5.0.2 Award-fees for Air Force research, development, test and evaluation (RDT&E) appropriations are planned and budgeted as a part of the total weapon system cost. To comply with appropriation law and RDT&E incremental funding policy, award-fees must be budgeted for and funded with the same fiscal year funds as the increment of associated effort.

5.1 Commitment of Award Fees

Funds should be committed at the beginning of the award-fee evaluation period in accordance with AFI 65-601, Volume 1, Budget Guidance and Procedures and DoD Financial Management Regulation 7000-14R. In situations involving organizations from another military service using an AF contract, the CO should seek assurance from the requesting activity that funds have been administratively reserved prior to the beginning of the evaluation period. The CO should require receipt of the Military Interdepartmental Purchase Request (MIPR) prior to convening the AFRB for that period.

AFI 65-601, Volume 1, Budget Guidance and Procedures, paragraph 8.3.1 reads as follows: "**Award-fee requirements** are planned and budgeted for as part of the total weapon system cost. Award-fees are a bona fide need of the same fiscal year and appropriation that finances the related effort on which the award fee is based. They are inherently inseparable from the work with which they are associated. Therefore, DoD full funding policy mandates award-fee requirements be budgeted in and funded with the same appropriation and in the same fiscal year as the associated effort. **Until the determination has been made that a contractor is due an award-fee, the award-fee funds are committed as a contingent liability, not obligated."** (See DoD 7000.14-R, Vol. 3, Chapter. 8, Paragraph 080202.A.)

However, if funds committed as a contingent liability expire before the award-fee is decided, the financial manager must obtain approval for an upward obligation adjustment (UOA) (AFI 65-601, Vol.1, Budget Guidance and Procedures, Chapter 6, Expired and Canceled Appropriations) before the funds may be obligated.

A variety of documents exist to record commitments; the most commonly used are Administrative Commitment Documents, Purchase Requests, and Military Interdepartmental Purchase Requests. In light of bona fide need and funding propriety rules, the CO and financial manager must be careful to ensure that the commitment cites the same fiscal year and appropriation as the related effort.

Review commitments for award-fees periodically to ensure the amount committed is a reasonable estimate of the remaining contingent liability and is consistent with the award fee plan.

5.2 Obligation and Payment of Award-Fees

5.2.1 Earned award-fee amounts are obligated by issuance of a contract modification after the completion of the award fee evaluation period and prior to payment.

5.2.2 Concerning the proper fiscal year and appropriation to pay an award-fee, remember this simple rule: The same fiscal year and appropriation used to fund the related contractual effort will be used to pay the earned award-fee. This is true even when funds reserved to pay award fees have expired.

5.2.3 Contracting Officers must be aware of the Anti Deficiency Act implications when UOA approval is involved.

5.3 Decommitment of Award-Fees

Once the contract modification authorizing payment of the earned award-fee is issued, all excess funds must be decommitted immediately. If there are additional award-fee amounts for subsequent evaluation periods held in commitment, the CO may be required to determine the size of the decommitment.

5.4 Funding of Delivery Orders

5.4.1 Orders with the Same Type of Funds

If several orders are placed for the same customer and funded with the same type of funds, the contract objectives and evaluation criteria can be established in the award-fee plan at the overall contract level. If so, then the available award-fee for each evaluation period is also established at the total contract level. At the end of the award-fee evaluation period, the contractor's performance in achieving the overall contract objectives is evaluated using the award-fee plan criteria. The FDO decision regarding earned award-fee is also made at the contract level. The fee amount is subsequently obligated against the ACRN that funds the overall contract.

5.4.2 Orders with Different Types of Funds

5.4.2.1 If three orders placed on contract are funded with different appropriations or are for different customers' requirements, the acquisition team may still evaluate the contractor's performance at the contract level. In this situation, where each task brings with it separate and discrete funding for its requirements, maintaining the fiscal integrity of the available award-fee and final allocation to the tasks on the contract is very important! Fiscal integrity can be accomplished by maintaining meaningful, proportional relationship between the individual orders and the overall contract performance objectives. This can take the form of order funding (see example below), required contract hours, or some other logical method. The total available award-fee for the evaluation period is calculated by applying a consistent methodology to each order. Using the same relationship consistently, the FDO-determined earned award-fee amount is then allocated back to each order to determine the amounts of each appropriation to be obligated. (Note: Orders funded by the same appropriation can be mathematically aggregated for ease of administration when contracts involve a significant number of orders.)

	Contract Funding	Available Award Fee (10%)	Earned Award Fee (80 %)
First Appropriation	$10,000	$1,000	$800
Second Appropriation	$50,000	$5,000	$4,000
Third Appropriation	$40,000	$4,000	$3,200
Total Contract Funding	$100,000	$10,000	$8,000

5.4.2.2 If the earned award-fee determination is based on the contractor's performance in achieving the overall contract objective and not against individual orders, it is inappropriate to establish the available award-fee amount or apply the earned award-fee amount to the individual orders. If the earned award-fee determination is based on the contractor's performance in completing the individual orders, it is inappropriate to establish the available award-fee amount or apply the earned award-fee amount to the overall contract.

5.4.2.3 The aggregated award-fee evaluation process can lead to special concerns for maintaining fiscal integrity, especially when multiple types of funds or various customers are involved. Consequently, when using this approach, the following minimum criteria must be used to avoid the inherent risks.

5.4.2.3.1 The award-fee plan should clearly state that the evaluation criteria are applicable at the contract level and not to each individual order placed on the contract. This does not preclude management of individual orders (e.g., discussions with the contractor in the fulfillment of each order). But, the award-fee plan should clearly communicate that the contractor will earn award-fee based on how the accomplishment of each order contributes to the overall contract objectives. For example, if the objective of an effort is to increase the useful military life of a weapon system through the development of engineering changes to specific subsystems or components (with specific subsystem or component changes made via separate change orders), then the evaluation criteria should clearly address the overall weapon system's increased life and not the increased life provided by each change to a subsystem or component. If the criteria instead focus on the change orders and how they will independently increase the life to the weapon system, the criteria would be too narrowly focused to allow for evaluation at the contract level. Therefore, it would be inappropriate to evaluate the contractor's performance, and allocate the funds, at the contract level.

5.4.2.3.2 A second concern may arise when customers with competing priorities utilize the same task or delivery order contract to fulfill their requirements. In this situation, if one customer is not satisfied with the contractor's attention to or performance on its particular requirement, then the customer likely will provide a negative award-fee evaluation input that reflects the contractor's performance on the individual order rather than reflecting its performance against the overall contract objectives. Although balancing customer award fee evaluation inputs under such circumstances can present a real dilemma in a customer-oriented quality culture, the AFRB must remain focused on how well the contractor optimized the available resources to maximize the delivered value at the contract level. Understanding the trade-offs exercised during the performance of the contract can be integral in evaluating the degree in which overall contract objectives were achieved.

5.4.2.3.3 When using an award-fee structure with multiple funding sources, the CO must be diligent to maintain fiscal integrity. Each order placed on the contract must bear a logical and proportionate burden of the available award-fee amount. In calculating the allocation of the earned award-fee, the same logical and proportional relationship as used for establishing the available award-fee amount must be maintained. This is an area subject to audit scrutiny or potential fiscal improprieties if not properly managed.

5.5 Severable Versus Non-severable Services

5.5.1 To avoid violations of the bona fide need rule, the CO must determine if the services to be performed are severable or non-severable to ensure the appropriate funds are used for the entire effort and associated award fee. A **non-severable** service represents a single undertaking or a requirement that is conceived as a single end product or result with a specified delivery date for products or a completion date for tasks. **Severable** services, on the other hand, are conceived as a recurring requirement for the same type of service during a specified period of time (and are often paid for on an incremental basis).

5.5.2 The following examples may be helpful in determining if the work is severable or non-severable. A services window cleaning contract is to be performed half in one fiscal year and half in the next. The contract is terminated at the end of the first fiscal year and not renewed for the next fiscal year. Thus, half of the windows are clean; a benefit that is not diminished by the fact that the other half is still dirty. This work is clearly severable. A severable service does not contemplate a required outcome or end product. However, if this is a contract to conduct a study and prepare a final report and this work is terminated halfway through, the Government has not received any benefit. In this example, the work is non-severable.

5.5.3 When issuing a non-severable order, the CO must establish, in advance of performance, the maximum award-fee that the contractor can earn for the performance of the order. Based on judgment and past experience, the CO should commit the probable total award-fee payment for the order (as part of the overall available award-fee for the contract). However, the basis for actual payment of the earned award-fee for this work must be the satisfaction of specific evaluation criteria in the award-fee plan that are relevant to performance of the particular order.

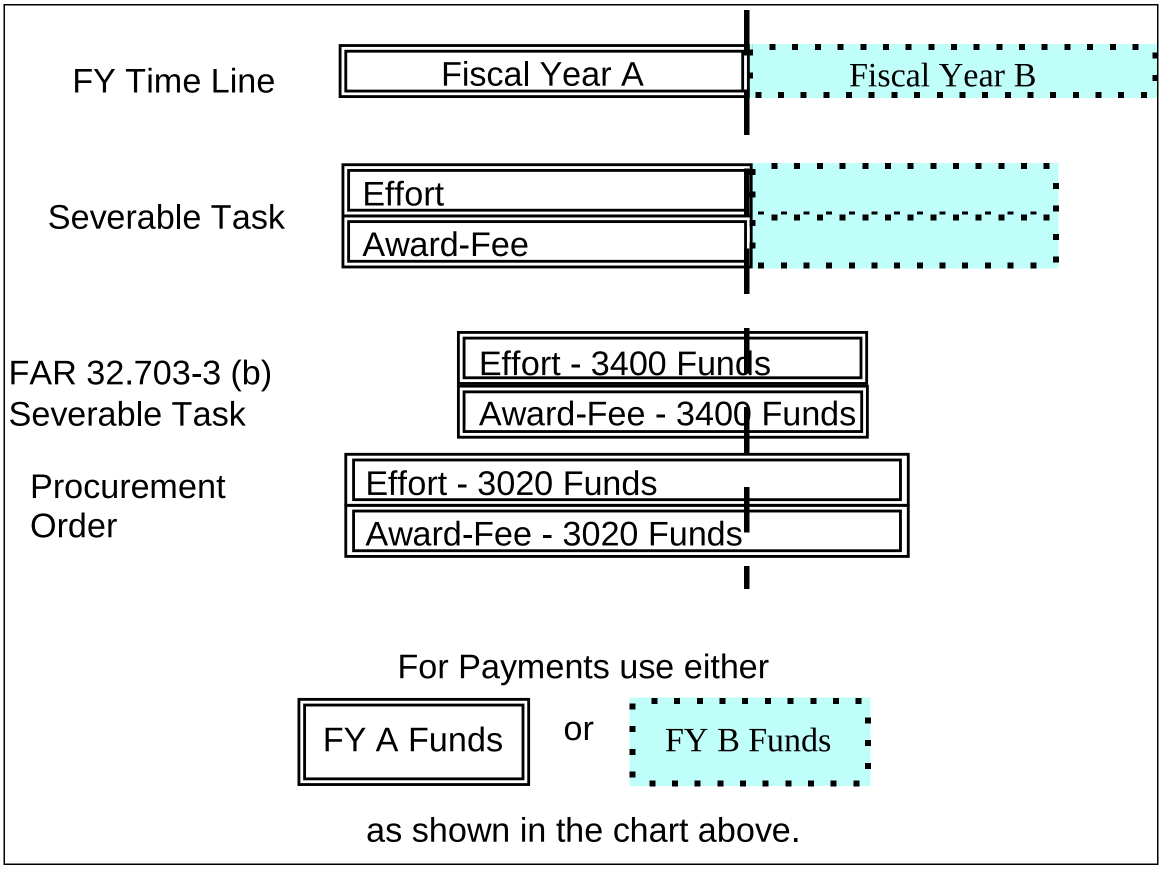
5.5.4 After evaluating performance of the non-severable service, the CO should decommit any unearned award-fee that remains in commitment status. The unearned award-fee should not be retained in the overall available award-fee on the contract to augment other orders funded with different fiscal year appropriations or different appropriation types. To do so violates the Purpose Statute (31 U.S.C. 1301(a)), and may trigger a resulting violation of the Anti-Deficiency Act (31 U.S.C. 1341), either at the time the award-fee is determined or at the time that the need to make a corrective entry is discovered.

5.5.5 In a non-severable order, the mere accumulation of hours of effort toward performance is not a suitable measure of performance. Instead, the evaluation criteria must reflect such areas as technical expertise, management, and cost control.

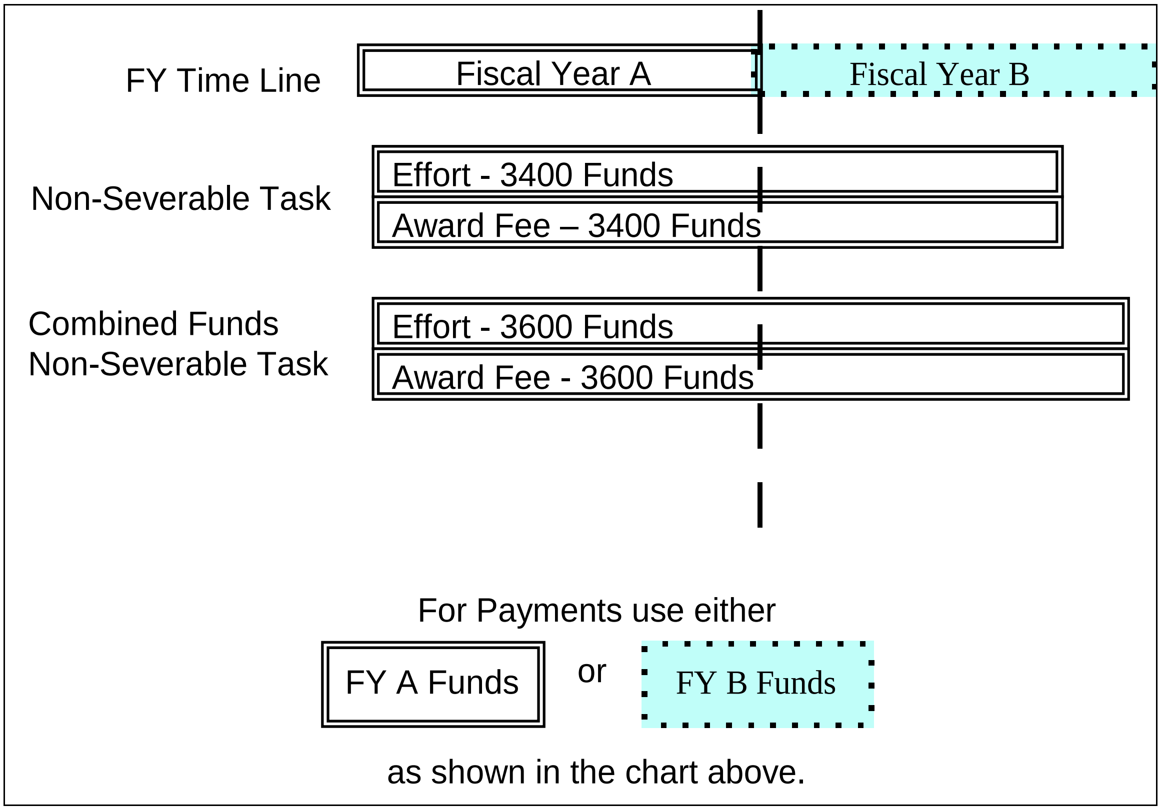
5.6 Bona Fide Need

One of the things that the bona fide need rule focuses on is the timing of the obligation.

5.6.1 When a severable order for services as described in FAR 32.703-3 (b) is issued in one award fee evaluation period and the performance extends into the next award fee evaluation period and crosses fiscal years, the funding for the service and award-fee should both come from the same fiscal year appropriation that was used to fund the awarded order. In other words, the effort (including award any award fee) must be fully funded with funds from the same fiscal year appropriation.



5.6.2 When a **non-severable** order is issued in one evaluation period and the performance extends into the next award-fee period and crosses fiscal years, the CO should calculate the actual hours and associated award fee dollars for that period and the remaining dollars should be made available for the following evaluation period. At the end of the second evaluation period, the award-fee will still be funded with the original fiscal year funds. The fiscal year identity of the appropriation does not change, even though performance spans more than one fiscal year. *The general rule is that the fiscal year appropriation current at the time the contract is made is chargeable with payments under the contract, although performance may extend into the next fiscal year.*



The above charts show which fiscal year funds to use for each effort and its associated award fees, both severable and non-severable. The same fiscal year that pays for the effort must pay the associated award fee. **Otherwise, there is a bona fide need rule violation**.

Chapter 6
Roles and Responsibilities

<u>6.0 Overview</u>

6.0.1 Evaluations for award-fee contracts are inherently subjective and judgmental because of the nature of the work typically involved in such efforts. Therefore, it is especially important that all personnel involved in evaluating contractor performance understand the overall process and the specific roles and responsibilities of the evaluation team. The award fee evaluation team includes a FDO, an AFRB, and performance monitors. The FDO makes the final determination regarding amount of award-fee earned during the evaluation period and ensures the integrity of the award fee process. The AFRB provides an objective, impartial view of the contractor's performance. The performance monitors work with the contractor on a day-to-day basis.

6.0.2 While the award-fee process provides for a subjective evaluation of the contractor's performance, the CO must ensure that participants in the process follow a disciplined approach and document their decisions. Documentation ensures the integrity of the evaluation process and must, therefore, demonstrate that the participants followed the process set forth in the award-fee plan that the rating recommendations and final determinations were based on actual performance and evaluated according to the award-fee plan, and finally, that timely feedback addressing performance strengths and weaknesses was provided to the contractor.

6.0.3 The award-fee organizational structure should be as simple as possible and avoid an excessively structured evaluation process. Excessive layers can hamper the flow of information and cause unnecessary paperwork, delays in turnaround, and large demands on the work force.

<u>6.1 Fee Determining Official</u>

6.1.1 The FDO is designated by position in the award fee plan. The FDO must be sufficiently senior to ensure the contractor's confidence in the objectivity of the award fee process and enable communication with the appropriate level of contractor management.

6.1.2 The FDO is responsible for ensuring that the amount and percentage of award-fee earned reasonably and accurately reflects the contractor's performance. The FDO's decision **<u>must</u>** **<u>be</u>** provided to the CO and documented in the contract file. The documentation must include an explanation of the rationale for any upward or downward variation from the AFRB's recommendation. Award-fee determinations are subject to the Disputes clause. Therefore, the documentation must support the FDO's decision and provide sufficient information to establish its fairness and reasonableness.

6.1.3 The FDO's determination should discuss the earned award-fee rating/fee amount and address the contractor's strengths and weaknesses for the evaluation period. The letter should not include: (1) names of individuals that work for the contractor, (2) internal rating scores of AFRB members or (3) internal rating tools, such as stars, arrows, etc. The CO shall forward the letter, documenting the FDO determination, to the contractor within a reasonable amount of time after the end of the evaluation period in order to allow the contractor to provide immediate feedback to its employees.

6.2 Award-Fee Review Board

6.2.1 The AFRB evaluates the contractor's overall performance for the award-fee evaluation period and recommends the earned award-fee amount to the FDO. The AFRB reviews the performance monitors' evaluations; the contractor's self-evaluation, if any; and other pertinent information to arrive at an overall evaluation of the contractor's performance. The AFRB may require that performance monitors be present to discuss their evaluations so that the AFRB may gain further insight into the contractor's performance. The AFRB may also recommend changes to the award-fee plan to the appropriate approval authority. The AFRB is also responsible for preparing interim evaluation reports to provide formal feedback to the contractor during the evaluation period.

6.2.2 The AFRB is composed of **only** Government personnel whose experience in acquisition related areas allows them to analyze and evaluate the contractor's overall performance. The only required members of the AFRB are a Chairperson, the CO, and a Recorder. The AFRB **should not** include performance monitors. AFRB membership may also include personnel from key organizations knowledgeable of the award-fee evaluation areas such as: Chiefs of Engineering, Logistics, Program Management, Contracting, Quality Assurance, Legal, and Financial Management; Government personnel from the user organizations and cognizant Defense Contract Management Agency (DCMA) office; and the director of the local Air Force Small Business Office in cases where subcontracting goals are important. Members should be identified only by position to eliminate the need for administrative changes to the award-fee plan when an individual member changes. AFRB members:

- Should be familiar with the award-fee process, contract requirements, and the award-fee plan.

- Assess the contractor's overall performance for each award-fee plan criterion. It is critical that the AFRB evaluate the contractor's overall performance according to the criteria stated in the award-fee plan.

6.2.3 The AFRB should document its processes and results in order to reflect how it arrived at the recommended earned award fee amount presented to the FDO. This documentation may include performance monitors' evaluations; interim letters, if applicable; the contractor's self-evaluation, if any; briefings presented to the AFRB; and other data considered.

6.2.4 AFRB Chairperson

The AFRB Chairperson is appointed by position by the FDO and selects the remaining AFRB members. The AFRB Chairperson also selects the performance monitors. The AFRB Chairperson:

- Briefs the FDO on recommended earned award-fee amounts and the contractor's overall performance.

- If applicable, recommends significant award fee plan changes to the FDO.

6.2.5 Contracting Officer

6.2.5.1 The CO is a member of the AFRB and is the liaison between the Government and the contractor. The CO transmits FDO letters to the contractor. The CO prepares and distributes the modification awarding the fee authorized by the FDO within a reasonable amount of time after the FDO determination. The CO's goal, however, should be to distribute the modification as soon after as possible to the day the FDO makes the determination. The CO should ensure that the award-fee amount is certified and administratively reserved in accordance with AFI 65-601, Vol. 1, Budget and Guidance and Procedures, prior to the beginning of the applicable award-fee evaluation period. The CO should also work with FM personnel to ensure that all unearned award-fee funds are decommitted promptly after each evaluation period. The CO should notify the contractor in writing of any change(s) to the award fee plan, after FDO/AFRB Chairperson approval.

6.2.5.2 The CO ensures the contract file includes all documentation necessary to substantiate the AFRB recommendation and the FDO determination. The CO and PM should ensure that the award-fee evaluation for that period is consistent with the data entered in the pertinent CPARS and in the System Metric and Reporting Tool (SMART). In addition to the required documents already in the official contract file such as the award-fee plan, appointment letters, etc., the file should contain the following documentation for each separate evaluation period:

- A copy of the FDO briefing.

- A copy of the FDO's determination letter to the contractor providing the earned award-fee amount, strengths, weaknesses, and future areas of emphasis, if any.

- Supporting rationale if the FDO's determination of earned award-fee amount differs from the AFRB recommendation.

- Interim evaluation letter, if applicable.

- Contractor's self-assessment, if any.

- Funding documents.

The contracting officer should collect award/incentive fee data as prescribed in FAR Part 16.401(f), and implemented by SAF/AQ Memo, Award and Incentive Fees-Data Collection, 15 Jun 07.

6.2.6 AFRB Recorder

The AFRB Recorder, who is designated by the AFRB Chairperson, is the administrative backbone of the award-fee process. The recorder is responsible for coordinating the administrative actions required by the FDO, AFRB, and performance monitors. An AFRB member may fill this position in conjunction with other functions on the AFRB. In some large programs with numerous performance monitors, an intermediate position between the AFRB and performance monitors may be established to consolidate the evaluations from the various performance monitors. The recorder:

- Notifies performance monitors that their evaluations are due.

- Receives, processes, and distributes evaluation reports from all required sources and maintains official files.

- Schedules and assists with internal evaluation milestones, such as briefings.

- Accomplishes other actions required to ensure the smooth operation of the award fee process, such as documenting the AFRB activities.

- Retains all performance monitors' evaluation reports, if they are not included in the official contract file.

- Retains other pertinent data not contained in the official contract file.

6.3 Performance Monitors

6.3.1 Performance monitors provide the continuous evaluation of the contractor's performance in specifically assigned areas of responsibility. This monitoring, which often occurs daily, is the foundation of the award-fee evaluation process.

Performance monitors are working-level specialists, such as engineers, cost analysts, Quality Assurance Personnel (QAP), or Functional Area Evaluators (FAEs), familiar with their assigned evaluation areas of responsibility. Performance monitors should not be members of the AFRB. Performance monitors:

- Should be familiar with the contract requirements and the award-fee plan, especially the performance rating criteria for their assigned evaluation area(s).

- Conduct all assessments according to contract requirements and the award-fee plan so that evaluations are fair and accurate.

- Maintain written records of the contractor's performance in their assigned evaluation area(s) that generally describe the contractor's performance and that detail specific examples where (1) improvement in contractor performance is necessary or desired; (2) the contractor has shown improvement in performance; and (3) the contractor’s performance either fails to meet or meets and exceeds contract requirements. These records should include documentation regarding feedback (verbal and written) that was provided to the contractor during the evaluation period.

- Prepare interim and end-of-period evaluations as directed that address the contractor's weaknesses and strengths.

- Be prepared to brief the AFRB on their specific evaluation area(s).

- Recommend changes to the award-fee plan; e.g., award-fee pool reallocations, performance area weights, and evaluation criteria.

6.3.2 Performance monitors should provide justification for their ratings and document both strengths and weaknesses in their areas of responsibility. It may be helpful for each monitor to prepare evaluation worksheets for each category of performance that mirror the evaluation criteria in the award fee plan. The performance monitors’ written records should be maintained until contract closeout.

Chapter 7
Award-Fee Plan Preparation

7.0 Overview

7.0.1 The Award-Fee Plan captures the award-fee strategy. The plan details the procedures for implementing the award fee clauses of the contract. The award-fee plan structures the methodology of evaluating the contractor's performance during each evaluation period. The acquisition teams' objectives in preparing an award fee plan should be to (1) provide a workable plan with a high probability of successful implementation, (2) clearly communicate evaluation procedures that provide effective, two-way communication between the contractor and the Government, and (3) focus the contractor's efforts on areas of greatest importance in order to motivate the best possible use of company resources and to improve contract performance. In developing an award fee plan, the acquisition teams should:

- Identify the responsible parties and detail their responsibilities. (See 7.1, Organization.)

- List the evaluation periods and, in the case of award-fee, the respective fee allocations. (See 7.2, Evaluation Period Length.)

- Identify the ratings and grades (and methodology) that will be used to measure the contractor's performance. (See 7.3.2, Grades.)

- Identify each category of performance. (See 7.3.3, Categories of Performance.)

- Define the evaluation criteria used to grade the contractor's performance. (See 7.3.4, Evaluation Criteria.)

- Describe the overall evaluation process by establishing an effective organizational structure commensurate with the complexity and dollar value of the particular acquisition.

- List weights, if any, to be applied to the evaluation criteria.

7.0.2 The following sections discuss the various elements of an award-fee plan. (See Appendix B, Checklists, Appendix C, Award-Fee Plan Template, and Appendix D, Award-Fee Pool Ratings/Definition. For smaller programs, award-fee plans do not need to be as elaborate as for larger programs. However, every award-fee plan should have the following elements:

- Title Page containing the name of the program, RFP/contract number, and coordination/approval signatures and dates.

- Introduction describing the responsibilities and procedures for implementing the award fee clause of the contract.

- Organization including identification of the AFRB organization/title and performance monitors.

- Evaluation Process including the grades, categories of performance, evaluation criteria, and weights, if any.

7.1 Organization

Identify the FDO and AFRB members by title/position to eliminate the need for administrative changes to the plan when an individual member changes. Performance monitors are identified by function in the plan. For more information, see Chapter 6, Roles and Responsibilities.

7.2 Evaluation Period Length

7.2.1 The total contract performance period should be divided into evaluation periods. Evaluation periods may end on specific dates or milestones. If milestones are used, evaluation periods shall end either at milestone completion or on the anticipated milestone completion date, whichever occurs first. Milestones for award-fee periods must be frequent enough to be meaningful to the contractor. The amount of available award fee shall be allocated over the evaluation periods. (See 4.3 - Allocation of Award-Fee by Evaluation Period, for further information)

7.2.2 When determining the appropriate length for evaluation periods, the acquisition team should consider several potential pitfalls. Evaluation periods that are too short can be administratively burdensome, lead to hasty evaluations or late award-fee determinations, and allow insufficient time for the contractor to improve areas of weakness. Evaluation periods that are too long can jeopardize effective formal communication between the contractor and Government and diminish opportunities to influence the contractor's performance. Evaluation periods should not exceed six months for small businesses or one year for large businesses. Performance feedback should occur not only at scheduled intervals but should be provided continuously to the contractor.

Prior to the start of the current award-fee period, the Government may unilaterally reallocate or revise the distribution of remaining award-fee dollars among subsequent evaluation periods. (4.3.5 - Reallocation) In either case, the CO should notify the contractor of such changes in writing before the relevant evaluation period starts. The award-fee plan should be modified accordingly. If the total award fee pool and the available award-fee dollars for each period are stated in the contract, the CO must issue a contract modification to reflect the change. After an evaluation period begins, changes impacting that evaluation for that period may be made only by mutual agreement of both parties.

7.3 Evaluation Requirements

7.3.1 General

Although award fee evaluations are subjective, the acquisition team should make every effort to make the criteria and the process for measuring the criteria as clear and understandable as possible. In many cases, this process can be facilitated (and the outcome enhanced) by including the contractor in the development of the criteria and the performance measures. Clear and measurable criteria help the FDO ensure that the final determination is based on preset acquisition outcomes and not anecdotal examples of performance brought forward at decision time.

7.3.2 Ratings/Grades

A critical part of developing the award fee plan is defining the ratings (grades), categories of performance, and evaluation criteria. There are five ratings (grades) that must be used to evaluate the contractor's performance. The award fee-plan must also include the range of ratings, points and associated descriptions, as well as the award-fee earned percentages (points, scores and weights) assigned to each grade. Grades, categories of performance, and associated criteria are specific to the needs and goals of the contract. Calculate the overall performance score by totaling the sum of the weighted points (if weights are used) for each category of performance. (See FAR Part 16.401—Table 16-1).

7.3.3 Categories of Performance

7.3.3.1 The award-fee plan lists the categories of performance (e.g., cost, schedule and technical performance) to be evaluated and the associated weights, if any. Acquisition teams should avoid grading a large number of performance categories, as this approach tends to dilute the emphasis of any given criterion. Program history and past performance can be helpful in identifying for the performance monitors key problem or improvement areas on which to focus their efforts.

7.3.3.2 Award-fee plans should be tailored to the strategy of the individual procurement. It is generally neither necessary nor desirable to include in the award fee plan a category of performance for each function in the statement of work. The acquisition team should select categories of performance (for evaluation) that are important to the success or failure of the program so that neither the Government nor the contractor uses inordinate resources on minor tasks to the detriment of major tasks. The team should structure the categories of performance (or functions) included in the award-fee plan in a manner that places appropriate emphasis on all critical functions, for example, cost control, quality (technical merit in design innovation or reliability), and scheduled delivery of product or services. Limiting evaluation to a single criterion could result in increased costs that are out of proportion to any benefit obtained. In addition, the relative importance and measure of performance in each area may vary according to the needs of the particular acquisition.

Every award-fee plan must address certain basic performance areas**.** For example, cost control shall always be evaluated in CPAF contracts.

7.3.4 Evaluation Criteria

7.3.4.1 The award-fee plan must state how the contractor's performance will be measured against acquisition outcomes as defined in terms of cost, schedule and performance. The criteria should emphasize the most important aspects of the program/service to be accomplished to motivate the contractor to strive for excellent performance. Understanding the criteria and what is important gives the contractor a clear picture of what it takes to be successful and to earn 100% of the available award-fee points. If an award-fee plan uses criteria that are too broad, or inapplicable to a given function, then the performance monitors will have a difficult time providing meaningful comments and evaluations.

7.3.4.2 Depending upon the procurement situation, performance evaluation factors may include output factors, input factors, or a combination of both. Output factors relate to the end results of contract performance, such as the quality of the end items delivered or services rendered, the actual time of delivery or completion, and the incurred costs. Input factors refer to intermediate processes, procedures, actions, or techniques that are key elements influencing successful contract performance. These include testing and other engineering processes and techniques; quality assurance and maintenance procedures; subcontracting with small and small disadvantaged businesses; purchasing department management; and inventory, work assignment and budgetary controls.

For Performance-based services, the Performance Work Statement (PWS) should describe in measurable performance standards (outputs) to accomplish the work. . These standards should address such elements as "what, when, where, how many, and how well" the work is to be performed, A Quality Assurance Plan (QAP) which directly corresponds to performance standards and measures contractor performance is needed to determine if contractor services meet the PWS requirements.

<u>7.4 Weighting of Categories of Performance</u>

The award-fee plan may indicate the relative priorities assigned to the various categories of performance through percentage weightings. If weights are used to communicate relative priorities, the total of the assigned weights must equal 100%. In setting up the weightings, the acquisition team should take into account that, as contract work progresses from one evaluation period to the next, the relative importance of particular performance criteria may change.

<u>7.5 Scoring Contractor's Performance</u>

7.5.1 Rating and scoring methods translate evaluation findings into recommended performance ratings. For award fee evaluation purposes, the evaluation team should work from the assumption that the contractor begins the evaluation period having earned **0%** of the available award-fee and works its way up to the earned award fee amount assigned by the FDO based on the quality of its performance during that evaluation period. **Contractors <u>do not</u> begin with 100% of the available award fee and have deductions taken against that amount**.

7.5.2 Some general considerations in the development of a grading/scoring methodology are:

- When government actions impact contractor's performance either positively or negatively, consider those actions in the scoring and grading process. Such government actions include changes in funding allocation or increased emphasis on certain technical requirements that require the contractor to make unexpected and extensive trade-offs with other technical requirements.

- Keep the process as clear and simple as possible.

- Avoid forcing specially tailored evaluation criteria to fit into a grading table or scoring formula.

- The entire available award fee amount or highest possible rating should be attainable.

- Documentation regarding the contractor's performance should always be available for the FDO's review before a final evaluation decision for the evaluation period is made. Documentation of assigned grade points is required to support recommendations.

7.5.3 Controlling cost is a key Government objective in every CPAF type contract. Therefore, the incentive structure in every CPAF contract and every multiple incentive contract containing award-fee arrangements, must address cost as a subjective performance area. The same requirement applies to fixed-price contracts with an award-fee provision. The acquisition team must be sure to measure the contractor's success at controlling cost against contract-estimated cost and not budgetary or operating plan costs. The predominant consideration when evaluating cost control is to measure the contractor's performance against the negotiated estimated cost of the contract, including the cost of undefinitized change orders when appropriate. The following scoring guidelines will help ensure that cost control receives the proper emphasis:

- If there is a cost overrun, consider the reasons for the overrun and the contractor's efforts to control or mitigate it. If there is a significant cost overrun that was within the contractor's control, a score of zero should be given. If the overrun is less than significant, a higher score may be given.

- If there was a cost overrun in the previous evaluation period, consider the contractor's efforts to control or mitigate it. If the cost overrun is lessening, a higher score may be given.

- If the maximum score for cost control is given when the contractor achieves the negotiated estimated cost of the contract, there may be no incentive for cost under-runs. So it would be more appropriate to give a lesser score in that instance indicating the degree to which the contractor has prudently managed costs while meeting contract requirements.

- Cost under-runs within the contractor's control will normally be rewarded; however, cost under-runs standing alone may not indicate good cost control unless the actual effort during the evaluation period matches that originally proposed or planned. The extent to which the under-run is rewarded will depend on the size of the under-run and the contractor's level of performance in the other categories of performance.

- Care must be taken to maintain a balance as to what key elements are to be incentivized to accomplish critical key performance events. For example, contractors should not be incentivized to excel in cost control to the detriment of the other important performance objectives.

7.6 Award-Fee Conversion Tables

Award-Fee plans may include conversion tables (and/or graphs) with formulas that translate the contractor's overall score (i.e., performance points) into the earned award-fee amount. This conversion does not have to be a linear relationship. The earned award-fee amount indicated by the use of a conversion table is a guide to the AFRB and the FDO. Regardless of the method used, the program may not pay award-fee if the contractor receives an overall unsatisfactory performance rating. The following table shows point ranges, and standard percentages (as outlined in FAR 16.401) that must be used to establish a consistent approach for the different categories of contracts that contain award fee features. As a reminder, a program may not pay out more than 50% of the available pool may for performance at the satisfactory level.

COMPUTATION OF AWARD FEE RATING

		*Percentage of Award Fee available to be earned
*Standard Description	Range of Rating Points (tailor for each acquisition)	CPAF w/Base Fee, FPAF and all other Award Fee Combinations
Excellent		91-100%
Very Good		76-90%
Good		51-75%
Satisfactory		Not greater than 50%
Unsatisfactory		0%

A contractor whose performance is less than satisfactory shall not be rewarded with any award fee. (See FAR Part 16.401—Table 16.1)

7.7 Evaluation Process

The award-fee plan details the interim (if any) and end-of-period evaluation processes. Interim evaluations (to provide the contractor with feedback regarding their performance) are recommended when the contract does not provide for provisional award fee evaluations and payment and/or the evaluation periods are more than six months long. For more information, see 8.2 Interim Evaluation Process and 8.3 End-of-Period Evaluation Process.

7.8 Procedures for Changing the Award-Fee Plan

All significant changes to the award-fee plan should be coordinated with the AFRB and shall be sent to the FDO for approval. After FDO approval of a change to an award-fee plan, the CO shall notify the contractor in writing of the change(s). The Government may make unilateral changes to the award-fee plan; however, such changes will not take effect if the CO does not provide the contractor written notification of the changes before the start of the next evaluation period. Changes affecting the current evaluation period may be implemented only by the mutual agreement of the parties. Examples of significant changes to the award fee plan include: increasing in technical/performance requirements, changing evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, changing AFRB membership, and revising the distribution of the award fee dollars.

7.9 Contract Termination

7.9.1 Termination for Convenience:

In the event that a contract that includes an award-fee incentive is terminated for the convenience of the Government, the amount of award-fee to which the contractor is entitled shall be determined as follows:

a. Award-fee earned or earnable by the contractor for award fee evaluation periods completed prior to the effective date of the termination will not be affected by the termination.

b. Award-fee deemed earned and to be paid for performance during the period in which the termination becomes effective will be determined by the FDO in accordance with the approved award fee criteria and will not be subject o negotiation as part of the equitable adjustment in accordance with the termination clause of the contract. For purposes of fee determination, contractor performance evaluation will end as of the date of termination.

c. The remaining award-fee dollars for all periods subsequent to the period in which the termination becomes effective will not be considered earned or earnable and, therefore, will not be paid.

7.9.2 Termination for Default:

If the Government terminates a contract that includes an award fee incentive for default (i.e., contractor's performance is less than satisfactory), the contractor shall not earn any fee for the period in which the default occurred. Consequently, no additional award-fee shall be paid during the termination settlement of the contract. Award-fee earned or earnable by the contractor for award-fee evaluation periods completed prior to the effective date of the termination will not be affected by the termination, unless other provisions of the contract and/or award-fee plan (e.g., negative incentives) require payback of previously earned fee.

Chapter 8
Award-Fee Evaluation Process

8.0 Overview

The award-fee evaluation process actually begins when the award-fee plan is drafted. The plan establishes the "what, when, and how" parameters relating to the evaluation of the contractor's performance. (For more information on how to write a plan, see Chapter 7, Award-Fee Plan.) For the purposes of this chapter, the evaluation process will be broken into three segments: Training, Interim Evaluation, and End-of-Period Evaluation. (The flowcharts in this chapter are consolidated in Appendix A)

8.1 Training Process

8.1.1 Training for those who will be administering an award-fee contract should begin before a contract is awarded so that personnel understand the award fee process before beginning their duties. Training of all personnel involved in the process is essential for successful monitoring and evaluation of the contractor's performance.

Provide Award-Fee Plan to Trainees → **Conduct Training**

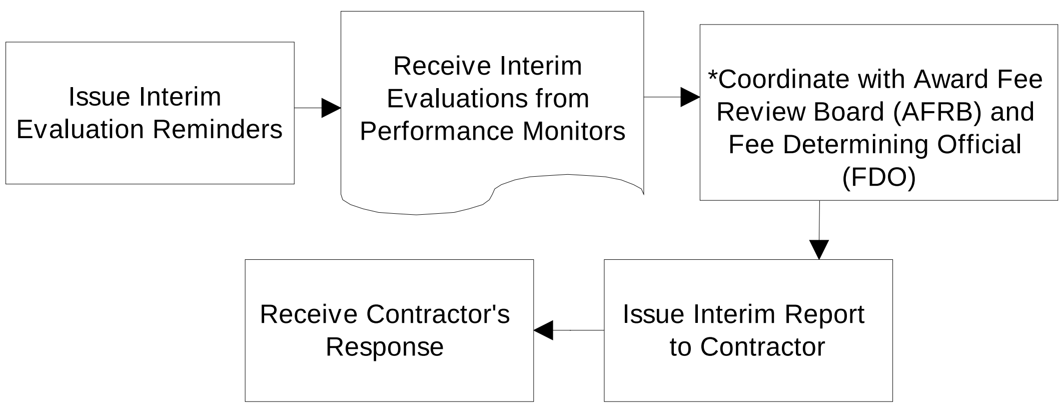
8.1.2 Training should cover such things as the plan, roles and responsibilities, documentation requirements, and evaluation techniques associated with award-fee contracts. Training for all personnel involved in the evaluation process should address:

- What is award-fee contracting?
- What is being evaluated?
- How will information be gathered and measured? What techniques will be used? (e.g., inspection, sampling of work, observation, review of reports or correspondence, and customer surveys.)
- How is information protected?
- What are the standards of conduct for personnel associated with the evaluation process?
- When or how often will information be obtained? (e.g., daily, weekly, or monthly)
- How will performance monitors secure information for areas they may not be able to personally observe? (e.g., off-site testing may be covered by one person for two different performance monitors.)

- Periodic refresher training is also encouraged when there is a change in key positions such as the FDO and or the chairperson of the AFRB.

8.2 Interim Evaluation Process

8.2.1 Continual communication with the contractor is essential for a successful award-fee incentive. Continual communication allows the contractor to receive feedback and understand where to make corrections in performance. Tracking contractor performance on an electronic database is one method for providing continuous feedback and can allow contractors continuous access to view their assessed performance during the course of an evaluation period. Formal interim evaluations identify strengths and weaknesses in the contractor's overall performance during the period and are recommended whenever using the award fee incentive. When evaluation periods exceed six months, it is imperative that an interim (mid-point) evaluation is provided.

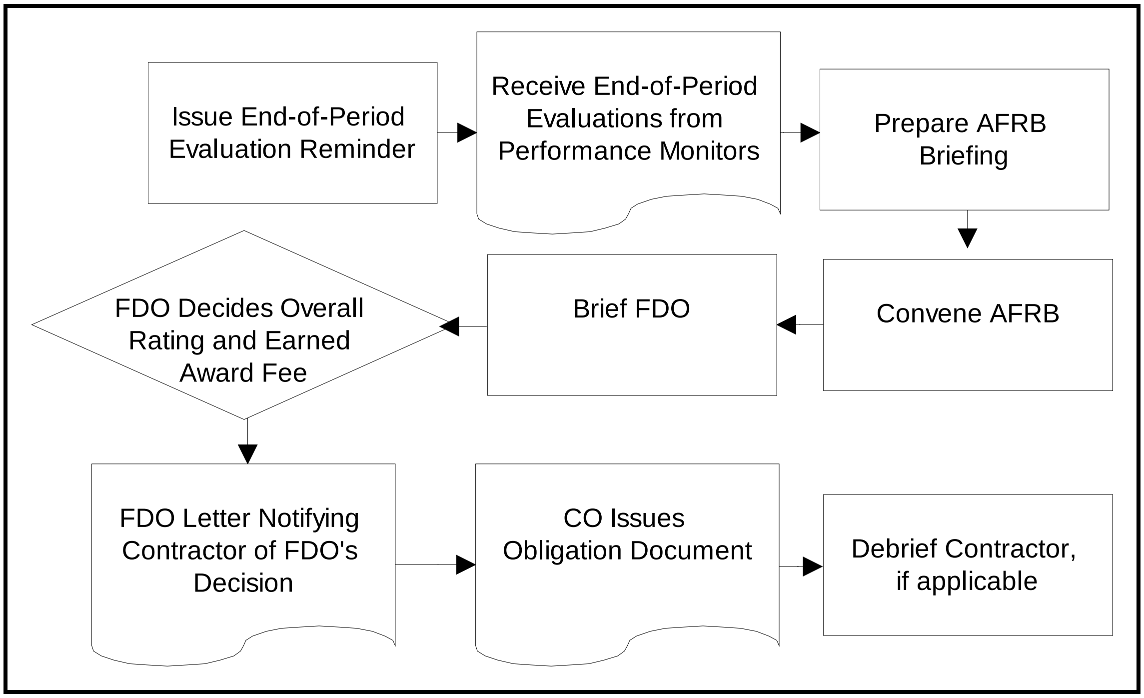


8.2.2 The AFRB recorder should notify the performance monitors in sufficient time before the mid-point of the evaluation period (e.g., 14 calendar days) to submit their interim evaluations. Performance monitors should identify in their evaluations those areas where improved contractor performance is necessary or required. They should also identify areas of strength. Performance monitors' interim evaluations are consolidated by the Recorder and presented to the Board. The consolidated mid-point evaluation should be documented in narrative or briefing format and should be reviewed by the FDO before it is distributed to the contractor.

8.2.3 The interim evaluation provided to the contractor should not contain any fee determination or rating. It should address the strengths and weaknesses noted for the current evaluation period. A written (rather than verbal) interim evaluation ensures that the contractor is informed of areas where corrective action(s) can be taken in sufficient time to correct these deficiencies prior to the FDO's award-fee amount determination. When necessary, additional letters may be sent to the contractor identifying areas of concern. These documents should be sent through the CO to a senior contractor official to ensure the contractor's responsiveness. The contractor's response if required, may include plans for increasing effectiveness in the areas identified for improvements and should be directed to the CO.

8.3 End-of-Period Evaluation Process

8.3.1 End-of-Period Fee Evaluation Process Flow Chart:



8.3.1.1 The AFRB recorder should notify the performance monitors in sufficient time before the end of the evaluation period (e.g., 14 calendar days) to submit their evaluations. Upon receipt of the performance monitors' evaluations, the recorder consolidates a summary evaluation and provides it to the AFRB. The CO may also send a copy of the summary evaluation to the contractor in order to provide the contractor an opportunity to review and comment on the evaluation. The summary evaluation provided to the contractor should not include an actual rating or grade. The summary evaluation may be in a narrative or briefing format. The contractor may also submit a self-evaluation of its performance for that period. The self-evaluation may be a written assessment submitted to the CO or a presentation to the AFRB. The AFRB evaluates the findings; contractor's self-assessment, if submitted; and other pertinent information to develop a recommended earned award fee amount for the FDO.

8.3.1.2 The AFRB Chairperson briefs the FDO on the AFRB's recommendations regarding the earned award-fee amount and any significant changes to the award-fee plan. The briefing should include discussion of the contractor's related strengths and weaknesses. The FDO may consider allowing the contractor to attend this briefing and present comments, but the contractor should not be allowed to participate in the final decision-making process. If the contractor does not attend the FDO briefing, the CO may consider arranging a debriefing for the contractor.

8.3.1.3 After the FDO selects an overall rating and the award-fee amount for the evaluation period, documented in the FDO determination, the contracting officer shall send a letter with the results to the contractor. The fee determination letter should be clear and concise, informing the contractor of the earned award fee amount, the major strengths and weaknesses of the contractor for that award fee evaluation period, and the focus areas for the next evaluation period. The CO should make every effort to issue the contract modification as soon as possible after the FDO signs the determination. The CO should also promptly de-commit all unearned award-fee funds for that evaluation period.

8.4 Delivery or Task Order Contracts Evaluated at the Contract Level

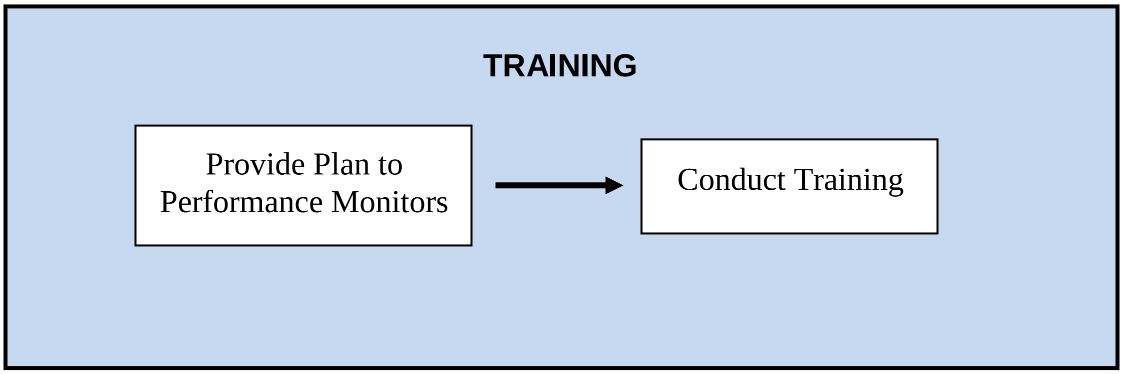
In many cases, the Government desires to motivate the contractor's performance at the contract level versus the level of each individual order. This situation may exist when a program's overriding concern does not relate to how each individual order is executed, but rather to how the contractor's performance of multiple orders contributes to meeting the overall contract objectives. In this scenario, the primary objective is for the Government/contractor team to make trade-offs between the orders in a constrained environment (contract dollars, hours, etc.) to ensure the optimal capability is achieved at the system performance level. Therefore, it is in the Government's best interest to incentivize the contractor to focus its efforts and perspective on overall contract performance rather than on the performance of individual orders. The success of this approach will depend on the efforts of the performance monitors, AFRB, and FDO to maintain this higher level perspective.

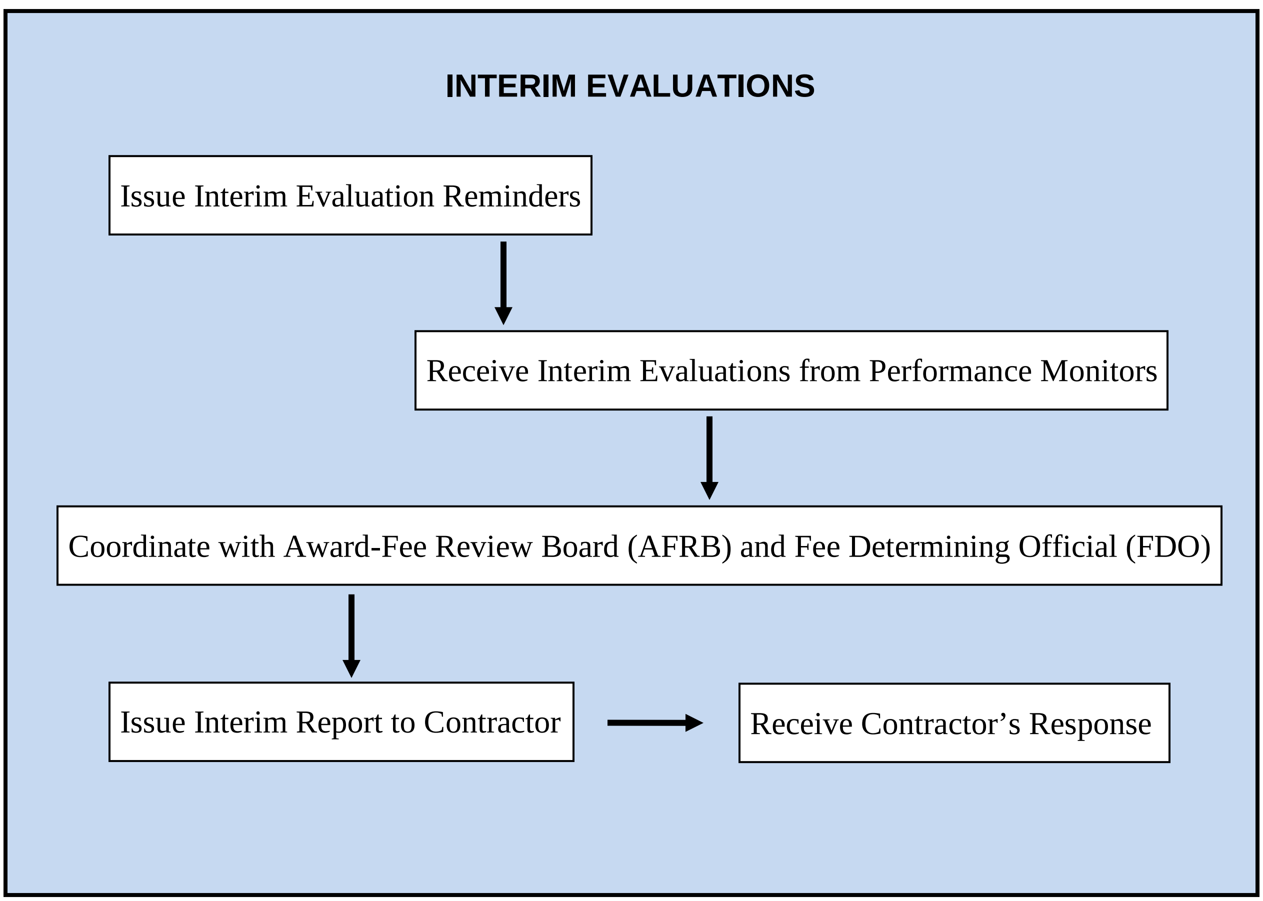
The award-fee plan should clearly state that the evaluation criteria are applicable at the contract level and not to each individual order placed on the contract. This does not preclude management of individual orders (e.g., discussions with the contractor in the fulfillment of each order). But, the award-fee plan should clearly communicate that the contractor earns award-fee based on how the accomplishment of each order contributed to the overall contract objectives.

8.5 Delivery or Task Order Award-Fee Contracts Evaluated at Order Level

The basic award-fee process for delivery or task orders is similar to that utilized for delivery or task order contracts. To the extent that a delivery or task order contract allows for the placement of specific requirements on orders that are independent of other orders' requirements and with separate, distinct sources of funding, the evaluation of performance (and the funding of the award-fee) should focus on the contractor's performance on each order against the award-fee criteria. The earned award-fee amount would then be specific to each order and ensure that the appropriation used to fund the award fee matches the appropriation used to fund the associated effort.

Appendix A
Evaluation Process Flowcharts





Appendix B
Award-Fee Checklist

AWARD-FEE PLAN: As a minimum:	Planned	Accomplished
Identify FDO and AFRB by Position		
Identify Performance Monitors by Function		
Define Grades used to Measure Contractor's Performance		
Define Categories of Performance (e.g., Technical, Cost Control)		
Specify Weights, if applicable		
Define the Evaluation Criteria (e.g., What constitutes Outstanding Performance for Cost Control?)		
List Evaluation Periods by Date or Milestone and Anticipated Milestone Completion Date		
List Allocation of Funds by Dollar Amount or Percentage of Available Award-Fee by Evaluation Period		
Establish Scoring Mechanism, if applicable		
Address Interim Evaluations, if applicable		
Set up General Procedures for AFRB		
Address End of Period Evaluations		

GENERAL:	Planned	Accomplished
No objective criteria? Document HCA Determination in Official Contract File		
Incorporate award-fee plan in the Draft RFP		
Incorporate award-fee plan in the Final RFP		
Train all personnel involved in the award-fee process		
Document FDO Determination in Official Contract File		

Appendix C
Award-Fee Plan Template

<< Click here for the M/S WORD version of this template. >>

(Fill-in information is shown in ***bold italics***.)

AWARD-FEE PLAN

FOR

(TITLE OF PROGRAM)

(DATE OF APPROVAL)

(Contractor's Name)

APPROVED:

____
Fee Determining Official
(Title)

Table of Contents

Award-Fee Plan

1. INTRODUCTION

This award-fee plan is the basis for the ***(title of the program)*** evaluation of the contractor's performance and for presenting an assessment of that performance to the Fee Determining Official (FDO). It describes specific criteria and procedures used to assess the contractor's performance and to determine the amount of award-fee earned. Actual award-fee determinations and the methodology for determining award-fee are unilateral decisions made solely at the discretion of the Government; however, the determination is subject to the Disputes clause of the contract.

The award-fee earned will be provided to the contractor through contract modifications and is in addition to the ***(type contract)*** provisions of the contract. The award-fee earned and payable will be determined by the FDO based upon review of the contractor's performance against the criteria set forth in this plan. The FDO may unilaterally change this plan prior to the beginning of a new evaluation period. The contractor will be notified of changes to the plan by the Contracting Officer, in writing, before the start of the affected evaluation period. Changes to this plan that are applicable to a current evaluation period will be incorporated by mutual consent of both parties.

2. ORGANIZATION

The award-fee organization consists of: the Fee Determining Official (FDO), an Award Fee Review Board (AFRB) which consists of a chairperson and members, the contracting officer, a recorder, other functional area participants, advisor members, and the performance monitors. The FDO, AFRB members, and performance monitors are listed in Annex 1.

3. RESPONSIBILITIES

a. Fee Determining Official. The FDO approves the award-fee plan and any significant changes thereto. The FDO reviews the recommendation(s) of the AFRB, considers all pertinent data, and determines the earned award-fee amount for each evaluation period.

b. Award-Fee Review Board. AFRB members review performance monitors' evaluation of the contractor's performance, consider all information from pertinent sources, prepare interim performance reports, and arrive at an earned award fee recommendation to be presented to the FDO. The AFRB may also recommend changes to this plan.

c. Chairman Award Fee Review Board. AFRB Chairman is responsible for the overall functioning of the AFRB in the performance of its members.

(1) Schedule all meetings of the AFRB and notify its members of the meetings.

(2) Conduct the briefing to the FDO with regard to the recommendations of the AFRB.

d. AFRB Recorder. The AFRB recorder is responsible for coordinating the administrative actions required by the performance monitors, the AFRB and the FDO, including:

(1) Receipt, processing and distribution of evaluation reports from all required sources;

(2) Scheduling and assisting with internal evaluation milestones, such as briefings; and

(3) Accomplishing other actions required to ensure the smooth operation of the award fee process

e. Contracting Officer (CO). The CO is the liaison between contractor and Government personnel. CO is the only individual authorized to monetarily obligate the Government.

f. Performance Monitors. Performance monitors maintain written records of the contractor's performance in their assigned evaluation area(s) so that a fair and accurate evaluation is obtained. Prepare interim and end-of-period evaluation reports as directed by the AFRB**. *Performance monitors are prohibited from being AFRB members.***

4. AWARD FEE PROCESSES

a. Available Award-Fee Amount. The available award-fee for each evaluation period is shown in Annex 2. The award-fee earned will be paid based on the contractor's performance during each evaluation period.

b. Evaluation Criteria. If the CO does not give specific notice in writing to the contractor of any change to the evaluation criteria prior to the start of a new evaluation period, then the criteria previously listed for the period will be used in the subsequent award-fee evaluation period. Any changes to evaluation criteria will be made by revising Annex 3 and notifying the contractor prior to starting that period.

c. Interim Evaluation Process. The AFRB Recorder notifies each AFRB member and performance monitor ***(insert number of days)*** calendar days before the mid-point of the evaluation period. Performance monitors submit their evaluation reports to the AFRB ***(insert number of days)*** calendar days after this notification. The AFRB determines the interim evaluation results and the CO notifies the contractor of the strength and weaknesses for the current evaluation period. The CO may also issue letters at any other time when it is deemed necessary to highlight areas of Government concern.

d. End-of-Period Evaluations. The AFRB Recorder notifies each AFRB member and performance monitor ***(insert number of days)*** calendar days before the end of the evaluation period. Performance monitors submit their evaluation reports to the AFRB ***(insert number of days)*** calendar days after the end of the evaluation period. The AFRB prepares its evaluation report and recommendation of earned award-fee. The AFRB briefs the evaluation report and recommendation to the FDO. At this time, the AFRB may also recommend any significant changes to the award-fee plan for FDO approval. The FDO determines the overall grade and earned award-fee amount for the evaluation period within ***(insert number of days)*** calendar days after each evaluation period. The FDO letter informs the contractor of the earned rating/award-fee amount which will be forwarded to the contractor by the contracting officer. The CO issues a contract modification authorizing the payment of the award-fee earned within ***(insert number of days)*** calendar days after the FDO's decision is made.

e. Contractor's Self-Assessment. When the contractor chooses to submit a self-evaluation, it must be submitted to the CO within a specified number of working days. This written assessment of the contractor's performance throughout the evaluation period may also contain any information that may be reasonably expected to assist the AFRB in evaluating the contractor's performance. The contractor's self-assessment may not exceed ***(insert number of pages)*** pages.

5. AWARD-FEE PLAN CHANGE PROCEDURE

All significant changes are approved by the FDO. The CO in coordination with the AFRB Chairperson approves other changes. Examples of significant changes include changing evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, and revising the distribution of the award-fee dollars. The contractor may recommend changes to the CO no later than ***(insert number of days)*** days prior to the beginning of the new evaluation period. After approval, the CO shall notify the contractor in writing of any change(s). Unilateral changes may be made to the award-fee plan if the contractor is provided written notification by the contracting officer ***(insert number of days)*** before the start of the upcoming evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties.

6. CONTRACT TERMINATION

a. Termination for Convenience: In the event that the contract is terminated for the convenience of the Government, the amount of award-fee to which the contractor is entitled shall be determined as follows:

(1) Award-fee earned or earnable by the contractor for award fee evaluation periods completed prior to the effective date of the termination will not be affected by the termination.

(2) Award-fee deemed earned and to be paid for performance during the

period in which the termination becomes effective will be determined by the FDO in accordance with the approved award fee criteria and will not be subject o negotiation as part of the equitable adjustment in accordance with the termination clause of the contract. For purposes of fee determination, contractor performance evaluation will end as of the date of termination.

(3) The remaining award-fee dollars for all periods subsequent to the period in which the termination becomes effective will not be considered earned or earnable and, therefore, will not be paid.

b. Termination for Default: If the Government terminates this contract for default (i.e., contractor's performance is less than satisfactory), the contractor shall not earn any fee for the period in which the default occurred. Consequently, no additional award-fee shall be paid during the termination settlement of the contract. Award-fee earned or earnable by the contractor for award-fee evaluation periods completed prior to the effective date of the termination will not be affected by the termination, unless other provisions of the contract and/or award-fee plan (e.g., negative incentives) require payback of previously earned fee.

3 Annexes

1. Award-Fee Organization
2. Award-Fee Allocation by Evaluation Periods
3. Sample Award-Fee Evaluation Criteria

ANNEX 1
Award-Fee Organization

Members

Fee Determining Official: ***(Position Title)*** ***(Office Symbol)***

Award-Fee Review Board Chairperson: ***(Position Title)*** ***(Office Symbol)***

Award-Fee Review Board Members:

Deputy Program Director	***(Office Symbol)***
Program Manager	***(Office Symbol)***
* Contracting Officer	***(Office Symbol)***
* Recorder	***(Office Symbol)***
Contracting Staff Member	***(Office Symbol)***
Judge Advocate Staff Member	***(Office Symbol)***
Financial Management Staff Member	***(Office Symbol)***
Plans Staff Member	***(Office Symbol)***
Director of Logistics	***(Office Symbol)***
Director of Engineering	***(Office Symbol)***
Director of Contracting	***(Office Symbol)***
Director of Configuration and Data	***(Office Symbol)***
Director of Program Control	***(Office Symbol)***
DCMA representative	***(Office Symbol)***

* These are mandatory members.

Performance Monitors

Area of Evaluation	**Performance Monitor(s)**
Program Management	***(Office Symbol)***
Subcontract Management	***(Office Symbol)***
Manufacturing Management	***(Office Symbol)***
Quality Assurance	***(Office Symbol)***
Configuration Management	***(Office Symbol)***
Engineering and Test Management	***(Office Symbol)***
Cost and Schedule Management	***(Office Symbol)***
Logistics	***(Office Symbol)***
Technical Orders	***(Office Symbol)***

ANNEX 2
Award-Fee Allocation by Evaluation Periods

The award-fee earned by the contractor will be determined at the completion of evaluation periods shown below. The percentage and dollars shown corresponding to each period is the maximum available award-fee amount that can be earned during that particular period.

Evaluation Period *	**From**	**To**	**Available Award Fee** **
First			
through			
Last period			
		Total	100%

(If you use milestones, include expected milestone completion dates. Use a table similar to the one below)

Evaluation eriod *	**Milestone**	**Expected Completion Date**	**Available Award-Fee** **
First			
through			
Last period			
			100%

***** The Government may unilaterally revise the distribution of the remaining award- fee dollars among subsequent periods. The contractor will be notified of such changes, if any, in writing by the CO before the relevant period is started and the award fee plan will be modified accordingly. Subsequent to the commencement of a period, changes may only be made by mutual agreement of the parties.

****** Will be computed in and expressed in dollars at conclusion of negotiations (for sole source) or in proposal and Final Price Revision (for competition) using percentage shown.

ANNEX 3
Sample Award-Fee Evaluation Criteria

STRUCTURE OF AWARD-FEE EVALUATION CRITERIA: The amount of award-fee the contractor may earn must be commensurate with the contractor's performance measured against contract requirements and acquisition objectives in accordance with the criteria stated in the award-fee plan. The plan must describe how the contractor's performance will be measured against the acquisition objectives which must be defined in terms of contract cost, schedule and performance. The plan must define each level of performance (e.g., unsatisfactory, satisfactory, good, Very Good and excellent) and include a prohibition on earning any award-fee if the contactor's overall performance is unsatisfactory.

Areas of evaluation are: Cost, Schedule, and Technical Performance. Several sub-areas should be added to each area to identify in more detail specific criteria that the contractor must meet in order to achieve desired outcomes. Weights assigned to areas and sub-areas should reflect the importance/criticality for the successful program execution, delivery of a product or service.

A. Cost: Each acquisition must be analyzed to ensure that evaluation of cost receives the appropriate attention in determining the amount of fee to be paid to the contractor. How much weight (emphasis) is to be put on this area will depend on the type of acquisition. A contract awarded for research and development of a product will have less emphasis on cost than a contract for the manufacture/delivery of a product or a contract that is for services. Some of the criteria to consider for evaluation of cost are:

How well does the contractor control/meet/exceed established cost goals? Are there program overruns or under-runs – both need to be evaluated to clarify the cause for over/under-run (is it solely contractor caused or did the Government contribute to the situation) e.g., was there a delay in delivery of a government furnished item that caused the delay and forced overtime to meet the schedule resulting in a cost overrun? Was there a Government-caused delivery slip moving work originally scheduled for this award fee-period to another period, resulting in a cost under-run? How well does the contractor address cost control by timely development of baseline, undistributed management reserve? What is the contractor's performance in using cost control systems to effectively monitor and report cost status in a timely fashion? Are variances clearly explained in accordance with contractual reporting requirements? How well does the contractor use cost data to project, report, and mitigate adverse program impacts?

B. Technical performance (Quality of Work): Weights assigned to this area should reflect the importance/criticality for successful program execution, design or delivery of a product or the successful performance of a service to ensure that the contractor's performance is measured against mission outcomes and basic requirements of the contract. In order to achieve this, sub-areas should be established to measure different aspects of performance, i.e., program execution, organizational and program management, risk management, logistic support, strategic planning, quality of work/services, etc.

Criteria to evaluate these sub-areas should be structured in such a way to evaluate how well the contractor identifies/addresses/mitigates problems and program risks. Evaluation criteria should be tied to technical requirements documents, risk reduction plans, applicable test plans and procedures, milestones for completion of reports, testing, product delivery, or other completion of events or deliverables set forth in the contract. Several sub-areas should be established under quality of work addressing the expertise of the workforce to ensure that contractor is held to the highest standards of quality of work. Criteria addressing how well the contractor meets the percentages of subcontracting goals established in the contract should also be included.

C. Schedule: Weights assigned to this area should reflect the importance of this area. Sub-areas should be established with criteria focused on getting the contractor to meet or exceed minimum delivery requirements. This can be defined in terms of early delivery, attaining or exceeding milestones, or meeting rapid-response or urgent requirements. Sometimes schedule risks may be very high since the customer requirements may not remain firm and the impact of changes cannot be predicted with reasonable accuracy. Reward to the contractor for accepting schedule risks must be consistent with the level of risk it assumes. As an example pre-production schedule objectives and risks would differ significantly from production schedule objectives and risks. The pre-production challenges usually are unknowns in technology and instability in requirements and funding – placing more risk on the contractor. On the other hand, manufacturing unknowns that drive a production schedule such as supply of materials/parts and labor represent a greater risk to the customer.

For award-fee evaluations to be effective, the criteria need to be clear, meaningful, tied to relevant cost, schedule and technical requirements (acquisition outcomes). Criteria used for evaluation should be achievable and measurable.

Appendix D
Award-Fee Pool Ratings/Definitions

Award-Fee may be earned in accordance with the following guidance (see FAR 16.401, Table 16.1)

Award-Fee Adjectival Rating	Award-Fee Pool Available to be Earned	Description
Excellent	91% – 100%	Contractor has exceeded almost all of the significant award fee criteria and has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Very Good	76% – 90%	Contractor has exceeded many of the significant award fee criteria and has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Good	51% – 75%	Contractor has exceeded some of the significant award fee criteria and has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Satisfactory	No Greater Than 50%	Contractor has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Unsatisfactory	0%	Contractor has failed to meet overall cost, schedule, and technical performance requirements of the contract as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period

NOTE: Ratings need to be identified in the award-fee plan. These definitions are provided to assist you in establishing evaluation criteria. The description of what constitutes each level of performance with each performance category must be included in the award-fee plan. Prohibits earning any award fee when the contractor's overall cost, schedule, and technical performance in the aggregate is below satisfactory.

Appendix E
List of Acronyms

AFAA	Air Force Audit Agency
AFI	Air Force Instruction
AFMC	Air Force Materiel Command
AFMCFARS	Air Force Materiel Command FAR Supplement
AFR	Air Force Regulation
AFRB	Award-Fee Review Board
CO	Contracting Officer
CoP	Community of Practice
CPAF	Cost Plus Award Fee
CPFF	Cost Plus Fixed Fee
CPIF	Cost Plus Incentive Fee
CPM	Critical Path Method
DAU	Defense Acquisition University
DCMA	Defense Contract Management Agency
DFARS	Defense FAR Supplement
DoD	Department of Defense
EVMS	Earned Value Management System
FAE	Functional Area Evaluator
FAR	Federal Acquisition Regulation
FDO	Fee Determining Official
FFP	Firm Fixed Price
FPAF	Fixed Price Award Fee
FPI	Fixed Price Incentive
NASA	National Aeronautical and Space Administration
OSD	Office of the Secretary of Defense
PM&AE	Program Management and Acquisition Excellence Office
PWS	Performance Work Statement
QAP	Quality Assurance Personnel
QPP	Quality Program Plans
RDT&E	Research, Development, Test, and Evaluation
R&M	Reliability and Maintainability
RFP	Request for Proposal
SAF	Secretary of the Air Force
SPC	Statistical Process Control
UOA	Upward Obligation Adjustment

Appendix F
References

Regulations

29 CFR 4.143: Service Contract Act – Effects of changes or extensions of contracts
29 CFR 4.145: Service Contract Act – Extended term contracts

FAR 16.001: Definitions
FAR 16.305: Cost Incentives
FAR 16.401: Fixed-Price Contracts with Award Fees
FAR 16.402-1: Cost-Plus-Award fee Contracts (Incentive Contracts)
FAR 16.405-2: Cost-plus-award-fee contracts
FAR 32.7: Contract Funding

DFARS 215.404-74: Fee Requirements for Cost-Plus-Award fee Contracts
DFARS 216.405-2: Cost-Plus-Award fee Contracts
DFARS 216.470: Other Applications of Award Fees
DODR 7000.14-R: DoD Financial Management Regulation, Volume 3, Chapter 8

AFFARS 5307.1: Acquisition Plans
AFFARS 5316.1: Selecting Contract Types
AFFARS 5316.4: Incentive Contracts

Instructions

AFI 63-124: Performance-Based Service Contracts
AFI 65-601, Volume 1: Budget Guidance and Procedures

Guides / Handbooks

DoD CPARS Policy Guide, Feb 09
AFMC Payment Instructions Guide
AFMC Financial Management Reference System and Handbook Archive

- Chapter 45, Contingent Liability
- Chapter 50, Bona Fide Need
- **NOTE:** The FMRS (which replaced the Handbook) is no longer being actively maintained.

Memoranda

SAF/AQC Policy Memo (10-C-12), 16 Jul 10: Delegation of Approval for Use of Award-Fee Contracts

- **NOTE:** Select your EMAIL certificate (when prompted) to access the memo above.

OUSD (AT&L) Memo, 24 Apr 07: Proper Use of Award Fee Contracts and Provisions
GAO Report, Dec 05: DOD Paid Billions in Award and Incentive Fees Regardless of Outcomes
AFMC/PK Memo, 5 Jan 00: Contract Types and Tailoring of Contract Clauses

Appendix G
Lessons Learned

Award- Fee/Incentive Fee samples, templates, guides and lessons learned will be populated into the "Award and Incentive Fees" Community of Practice (CoP) Website as they become available. These will be divided into the following categories:

Category	Page
GENERAL	1
FUNDING	2
ROLES AND RESPONSIBILITIES	2
AWARD-FEE PLAN	4
TRAINING	5