



NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

JOINT APPLIED PROJECT

**Performance-Based Service Acquisition (PBSA) Study
and Graduate Level Course Material**

**By: Penny S. Kennedy
Joe T. McClure
December 2005**

**Advisors: E. Cory Yoder
Catherine Kellington**

Approved for public release; distribution is unlimited.

PAGE IS INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE December 2005	3. REPORT TYPE AND DATES COVERED Joint Applied Project	
4. TITLE AND SUBTITLE: Performance-Based Service Acquisition (PBSA) Study and Graduate Level Course Material			5. FUNDING NUMBERS	
6. AUTHOR(S) Joe T. McClure and Penny S. Kennedy				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A			10. SPONSORING / MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES The views expressed in this report are those of the author(s) and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited			12b. DISTRIBUTION CODE	
13. ABSTRACT (maximum 200 words) The purpose of this project is to provide materials and information in the form of lessons that will make up a teachable course for graduate students of the Naval Post Graduate School. In addition, this research will address the current Department of Defense contracting policy, guidance, regulations and lessons learn. Performance-based Service Acquisition (PBSA) within the Department of Defense at both other government agencies, as well as commercial practices at progressive businesses are examined as they relate to PBSA. It is important to understand that the PBSA contract form involves acquisition strategies, methods, and techniques that define and communicate measurable performance expectations in terms of outcomes or results as opposed to directing performance methods, processes, systems or broad categories of work activity. To the maximum extent possible, the process should describe the work objectives in terms of <u>what</u> is to be the required output rather than <u>how</u> the work is to be accomplished and placing the responsibility for that <u>accomplishment</u> on the contractor. This document contains best practices that have proven useful for drafting statements of work, solicitations, and quality assurance plans, and in awarding and administering performance-based service acquisitions. This document is not intended to be mandatory regulatory guidance, such manuals already exist, but rather assistance to agencies and students in implementing performance-based service acquisition more fully throughout DOD.				
14. SUBJECT TERMS Performance-Based Service Acquisition (PBSA), Performance Work Statement (PWS), Statement of Objectives (SOO), Incentives, Service Contracts, Contracting, Performance Assessment, Performance Measurement, Market Research			15. NUMBER OF PAGES 149	
			16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL	

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited

**PERFORMANCE-BASED SERVICE ACQUISITION (PBSA) AND
GRADUATE LEVEL COURSE MATERIAL**

Penny S. Kennedy, Civilian, NT-V (GS-1102-14)
Joe T. McClure, Civilian, GS-1101-13

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE IN CONTRACT MANAGEMENT

from the

**NAVAL POSTGRADUATE SCHOOL
December 2005**

Authors:

Penny S. Kennedy

Joe T. McClure

Approved By:

E. Cory Yoder

Catherine Kellington

Robert Beck, Dean
Graduate School of Business and Public Policy

THIS PAGE INTENTIONALLY LEFT BLANK

PERFORMANCE-BASED SERVICE ACQUISITION (PBSA) STUDY AND GRADUATE LEVEL COURSE MATERIAL

ABSTRACT

The purpose of this project is to provide materials and information in the form of lessons that will make up a teachable course for graduate students of the Naval Post Graduate School. In addition, this research will address the current Department of Defense contracting policy, guidance, regulations and lessons learned. Performance-based Service Acquisition (PBSA) within the Department of Defense at both other government agencies, as well as commercial practices at progressive businesses are examined as they relate to PBSA.

It is important to understand that the PBSA contract form involves acquisition strategies, methods, and techniques that define and communicate measurable performance expectations in terms of outcomes or results as opposed to directing performance methods, processes, systems or broad categories of work activity. To the maximum extent possible, the process should describe the work objectives in terms of what is to be the required output rather than how the work is to be accomplished and placing the responsibility for that accomplishment on the contractor.

This document contains best practices that have proven useful for drafting statements of work, solicitations, and quality assurance plans, and in awarding and administering performance-based service acquisitions. This document is not intended to be mandatory regulatory guidance, such manuals already exist, but rather assistance to agencies and students in implementing performance-based service acquisition more fully throughout DOD.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. SYLLABUS	3
A. PERFORMANCE BASED SERVICE ACQUISITION.....	3
1. Background	3
2. Model Course Description:	3
3. Reading Materials	4
B. COURSE REQUIREMENTS.....	4
1. Performance-Based Service Acquisition Group Project	4
2. Assessment (Grading).....	5
C. COURSE OUTLINE	5
II. INTRODUCTION.....	13
III. SESSION 1: INTRODUCTION TO PERFORMANCE-BASED SERVICE ACQUISITION (PBSA)	15
A. LEARNING OBJECTIVES.....	15
B. INTRODUCTION.....	15
C. READING MATERIALS FOR SESSION 1	15
1. Instructor	15
2. Student	16
D. WHAT IS PBSA?	16
E. HISTORICAL PROSPECTIVE OF PBSA.....	17
F. PBSA TERMS AND DEFINITIONS.....	18
G. POLICY BACKGROUND AND AUTHORITIES.....	19
H. PBSA AUTHORITY.....	20
I. POLICY GUIDANCE	20
1. Benefits Deriving from PBSA Implementation	21
J. STUDENT/CLASS ASSIGNMENT, ACTIVITIES	22
K. READINGS ASSIGNMENTS FOR SESSION 2	22
IV. SESSION 2: THE INTEGRATED SOLUTION TEAM.....	25
A. LEARNING OBJECTIVES.....	25
B. INTRODUCTION.....	25
C. READING MATERIALS FOR SESSION 2	25
1. Instructor	25
2. Students.....	26
D. OSD PERFORMANCE-BASED SERVICES ACQUISITION GUIDING PRINCIPLES	26
E. THE PBSA INTEGRATED SOLUTION TEAM.....	28
1. Sponsor/User	29
2. Technical Specialist/Project Manager/Program Manager.....	29
3. Contracting Officer/Contract Specialist	29
4. Cost/Price Analyst.....	29

5.	Performance Assessment Personnel (Quality Assurance Personnel):.....	30
6.	Small and Disadvantaged Business Utilization (SADBU) Specialist	30
7.	Finance/Budget Officer	30
8.	Legal Advisor	30
9.	Miscellaneous Others.....	30
F.	ROLES AND RESPONSIBILITIES OF THE “TEAM”	32
G.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	34
H.	READING ASSIGNMENT FOR SESSION 3	36
V.	SESSION 3: MARKET RESEARCH	39
A.	LEARNING OBJECTIVE.....	39
B.	INTRODUCTION.....	39
C.	READING MATERIAL FOR SESSION 3	39
1.	Instructor	39
2.	Student	40
D.	WHAT IS “MARKET RESEARCH” AND WHY IS IT NEEDED?	40
E.	MARKET RESEARCH IN THE PERFORMANCE-BASED ACQUISITION PROCESS.....	42
F.	INTEGRATED SOLUTIONS TEAM FUNCTIONS AND RESPONSIBILITIES.....	42
G.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	43
H.	READING ASSIGNMENT FOR SESSION 4	44
VI.	SESSION 4: THE PERFORMANCE REQUIREMENTS AND OUTCOME ANALYSIS	45
A.	LEARNING OBJECTIVES.....	45
B.	INTRODUCTION.....	45
C.	READING MATERIAL FOR SESSION 4	45
1.	Instructor	45
2.	Student	45
D.	IDENTIFICATION AND DEFINITION OF REQUIRED OBJECTIVES/DESIRED OUTCOMES.....	46
1.	Examples of Performance Standards/Performance Measurement Factors	48
2.	The Performance Requirements Analysis Matrix	48
E.	LESSONS LEARNED	52
F.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	53
1.	Conduct an Analysis	53
G.	READING ASSIGNMENTS FOR SESSION 5	53
VII.	SESSION 5: THE PERFORMANCE WORK STATEMENT (PWS).....	55
A.	LEARNING OBJECTIVES.....	55
B.	INTRODUCTION.....	55
C.	READING MATERIAL FOR SESSION 4	55
1.	Instructor	55

2.	Student	56
D.	PERFORMANCE WORK STATEMENT DEVELOPMENT PROCESS	56
E.	LESSONS LEARNED	59
F.	STATEMENT OF OBJECTIVE DEVELOPMENT PROCESS	60
G.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	62
H.	READING ASSIGNMENTS FOR SESSION 6	64
VIII.	SESSION 6: PERFORMANCE INCENTIVES AND PENALTIES.....	67
A.	LEARNING OBJECTIVES.....	67
B.	INTRODUCTION.....	67
C.	READING MATERIAL FOR SESSION 4	67
1.	Instructor	67
2.	Students.....	68
D.	PERFORMANCE INCENTIVES AND PENALTIES.....	68
E.	AWARD-FEE CONTRACT ARRANGEMENTS.....	70
F.	AWARD-TERM CONTRACT ARRANGEMENTS	71
G.	PENALTIES FOR NON-PERFORMANCE.....	75
H.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	75
I.	READING ASSIGNMENT FOR SESSION 7	75
IX.	SESSION 7: METHODS AND METRICS TO ASSESS/MANAGE CONTRACTOR PERFORMANCE	77
A.	LEARNING OBJECTIVES.....	77
B.	INTRODUCTION.....	77
C.	READING MATERIAL FOR SESSION 7	77
1.	Instructor	77
2.	Students.....	77
D.	METHODS AND METRICS TO ASSESS/MANAGE CONTRACTOR PERFORMANCE	78
E.	QUALITY ASSURANCE VS. PERFORMANCE ASSESSMENT	80
1.	Purpose.....	82
2.	Authority.....	82
3.	Scope.....	82
4.	Government Resources.....	83
a.	Contracting Officer.....	83
b.	Project Officer.....	83
c.	Technical Monitor.....	83
5.	Responsibilities.....	84
a.	Contracting Officer.....	84
b.	Project Officer.....	84
c.	Technical Monitor.....	84
6.	Methods of QA Surveillance	84
a.	Customer Feedback.....	85
b.	100% Inspection.....	85
c.	Random Monitoring.....	85
7.	Identified QA Surveillance Tasks.....	85

	8.	Documentation	86
	9.	Attachments.....	86
F.		ASSESSMENT METHODOLOGIES	87
	1.	Random Sampling.....	87
	2.	Periodic Sampling	87
	3.	Trend Analysis	87
	4.	Third-Party Audits	87
G.		STUDENT/CLASS ASSIGNMENT, ACTIVITIES	88
H.		READINGS FOR SESSION 8	89
X.		SESSION 8: DETERMINE THE TYPE OF SERVICE CONTRACT	91
	A.	LEARNING OBJECTIVES.....	91
	B.	INTRODUCTION.....	91
	C.	READING MATERIAL FOR SESSION 8	91
	1.	Instructor	91
	2.	Students.....	91
	D.	CHOOSING THE TYPE OF CONTRACT APPROPRIATE FOR PBSA	92
	1.	Firm Fixed-Price Contracts (FFP)	94
	2.	Fixed-Price Contracts with Provisions for Economic Price Adjustment	95
	3.	Fixed-Price Incentive Fee (FPIF) Contracts.....	95
	4.	Cost-Reimbursable (CR).....	96
	5.	Cost-Plus-Fixed-Fee (CPFF)	96
	6.	Cost-Plus-Incentive-Fee (CPIF).....	96
	7.	Cost-Plus-Award-Fee (CPAF)	97
	8.	Cost-Sharing (CS)	97
	9.	Cost-Without-Fee (CWF).....	97
	10.	Cost-Plus-Award-Term Contract (CPAT)	97
	11.	Hybrid ID/IQ Cost-Plus-Performance-Fee (CPPF) Task Order Contract	99
	12.	ID/IQ Cost-Plus-Fixed-Fee (CPFF) Task/Delivery Order Contract	100
	13.	Hybrid ID/IQ Multi-Format Task/Delivery Order Contract	101
E.		STUDENT/CLASS ASSIGNMENT, ACTIVITIES	103
F.		READINGS FOR SESSION 9	103
XI.		SESSION 9: CONTRACTOR SELECTION PROCEDURES	105
	A.	LEARNING OBJECTIVES.....	105
	B.	INTRODUCTION.....	105
	C.	READING MATERIAL FOR SESSION 9	105
	1.	Instructor	105
	2.	Students.....	105
	D.	SELECTING THE RIGHT CONTRACTOR.....	106
	E.	SAMPLE EVALUATION FACTORS FOR AWARD.....	108
	1.	General.....	108
	2.	Offeror Capability	108

a.	<i>Experience</i>	109
b.	<i>Past Performance</i>	109
c.	<i>Understanding of the Work</i>	109
d.	<i>Compliance with RFP Instructions</i>	110
F.	KEYS TO SOURCE SELECTION.....	111
G.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	113
H.	READINGS FOR SESSION 10	113
XII.	SESSION 10: EFFECTIVE MANAGEMENT OF POST-AWARD CONTRACT PERFORMANCE	115
A.	LEARNING OBJECTIVE.....	115
B.	INTRODUCTION.....	115
C.	READING MATERIAL FOR SESSION 10	115
1.	Instructor	115
2.	Students.....	115
D.	EFFECTIVE MANAGEMENT OF POST-AWARD CONTRACT PERFORMANCE	116
E.	MEASURING.....	118
F.	GATHERING DATA	119
G.	DATA ANALYSIS	120
H.	REPORTING	120
I.	STUDENT/CLASS ASSIGNMENT, ACTIVITIES	123
XIII.	CONCLUSION	125
	LIST OF REFERENCES	127
	INITIAL DISTRIBUTION LIST	133

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

Table 1.	Course Outline	12
Table 2.	Part of sample from United States Patent and Trade Office: http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/library/USPTOattF_DRAFTQASP.doc (November 2005).....	86

THIS PAGE INTENTIONALLY LEFT BLANK

EXECUTIVE SUMMARY

Performance-Based Service Acquisition (PBSA) is a process that all in the acquisition and contracting fields need to understand and learn. Laws, policies, and regulation have dramatically changed the procurement process into one that must operate with a mission-based and program-based focus. Procurement teams, consisting of technical, program, financial, logistics, legal and contracting staff, working cooperatively across organizational boundaries toward common goals, which is the new model employed by performance-based service acquisition.

The purpose of this publication is to assist agencies in developing policies and procedures for implementing PBSA through the creation of PBSA lesson modules for utilization of course developers and presenters at the Naval Postgraduate School and other institutions delivering higher education to acquisition professionals. The information and practices contained in this document were derived from the experience of contracting personnel, research of publications, and lessons learned. Information was gathered from published articles and existing government guidance, and is incorporated into deliverable modules to be shared with these new integrated solution teams that will have the responsibility of fully implementing the PBSA policy and methodology.

Our goal is to effectively integrate all stakeholders' efforts toward the critical success of PBSA and the accomplishment of mission goals. A key objective for this publication is to teach and promote the team approach to improve quality and continuity for both the acquisition process and the contract management oversight following the award. Effective knowledge management is a people issue, not a technology issue. So, any new integrated solution team should have the proper training to participate and be effective.

THIS PAGE INTENTIONALLY LEFT BLANK

I. SYLLABUS

A. PERFORMANCE BASED SERVICE ACQUISITION

1. Background

On November 17, 2003 a Memorandum and directive was issued by the Deputy Assistant Security of the Navy (DASN)¹ for Acquisition establishing reform requirements that generally prohibits the acquisition of services through the use of a contract or task order that is not performance-based. In accordance with Defense Federal Acquisition Regulations Supplement (DFARS) 237.170-2 any acquisition of services at or below \$50,000,000 that is not performance-based now requires approval by the Headquarters Contracting Authority (HCA).

Performance Based Service Acquisition (PBSA) is a process that we all need to understand and learn to use to its fullest potential. The success of the performance-based service contract is dependent on the development and use of performance measurement criteria and a performance work statement (PWS) that describe the results (the what) rather than the activity (the how).

Careful planning, market research, more detailed statements of work (SOW) and performance measurement criteria should increase the ability to achieve the goals of performance-based service acquisition.

2. Model Course Description:

The model course promotes a teach by doing methodology. This will fully integrate the traditional distinct presentation of theoretical concepts and practical demonstration of the topic to be taught. The course learning process will use a group case study that demonstrates all aspects of PBSA.

The model course starts with several cases studies. The participating class will divide up into teams and within the teams assign roles for the written exercises. The course will require each team to take a customer requirement and to perform all of the

¹ R. E. Cowley, November 17, 2003. Change to Navy Acquisition Procedures Supplement (NAPS) Pertaining to Approval Requirements for Service Acquisitions

steps that lead up to a performance based contract, including the surveillance plan for the post-award management. During this model class, market research, defining requirements, writing a performance based service acquisition statement of work (performance work statement or/and a statement of objectives) for professional services (engineering, science and technology, legal services, management and accounting, information technology, etc.) is required. Additionally, selection of contract type, source selection plan to include selection criteria, method of evaluation, incentive plan (fee, term, etc.), cost estimate are imbedded objectives and requirements.

The purpose of this process is to take graduate level students through a process that encompasses all of the critical process areas listed below. The instructor will use the resources and the class time to emphasize the process the students are putting into practice through class cases. The mid-term exam is a deliverable product and a short presentation by designated student teams to the instructor and class on the progress of their performance-based service acquisition package. The final exam is the delivery of the final procurement package for the performance-based service acquisition and a presentation of their package to the instructor and class.

3. Reading Materials

There are no required textbooks for this course. Reading assignments are listed on the course outline and may be accessed via the NPS On-Line Blackboard. (<http://nps.blackboard.com>)

B. COURSE REQUIREMENTS

1. Performance-Based Service Acquisition Group Project

Students will break into groups of 3 to 5 people. The group will be responsible for the development of a performance-based service acquisition package to include all elements of a typical acquisition. They will be responsible for assigning roles and responsibilities that are found in a PBSA “Team” and to choose a real defense professional service requirement for the project. They will perform the market research, the requirements and outcome analysis, develop the performance work statement, the source selection methodology, the performance assessment methodology and plan, determine the type of contract, incentives, disincentives and penalties, and selection

process. It is important to demonstrate the understanding of the PBSA contract form involving acquisition strategies, methods, and techniques that define and communicate measurable *performance expectations* in terms of *outcomes* or *results* as opposed to directing performance methods, processes, systems or broad categories of work activity.

2. Assessment (Grading)

Final course grades will be based on the two group presentations and the mid-term and final PBSA packages.

Mid-term package:	15%
Mid-term presentation:	15%
Final PBSA package:	30%
Final presentation:	20%
Class participation:	20%

C. COURSE OUTLINE

Session 1: Introduction to Performance-Based Service Acquisition (PBSA)

Learning Objective

1. The primary learning objective of this session is to understand the current Department of Defense contracting policy, guidance, regulations and lessons learned on Performance-Based Service Acquisition.
2. The secondary learning objective is to fully define PBSA and the benefits derived from PBSA implementation.

Reading Material

Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*. Pages 1- 4 and Appendix J,

Law, Bob, December 2001. Coming Full Circle. Contract Management Magazine/December 2001, Volume 41, Issue 12, Pages 18-23

Wright, J. L. Capt, USAF and Feeney, J. B. TSGT, USAF, September 1999. 10 Most Frequently Asked Questions About Performance-Based Service Contracts. Contract Management Magazine/September 1999, Volume 39/Issue 9, Pages 10-14

Session 2: PBSA Integrated Solution Team

Learning Objective

3. Learn about the Office of the Secretary of Defense's (OSD) PBSA Guiding

Reading Material

Pages ii and iii of the Guiding Principles are found in Department of Defense,

Principals.

4. Learn how to develop an Integrated Product Team (IPT) for the acquisition process.
5. Learn the roles and responsibilities of the “Team” during pre-award and post-award for the PBSA process.

Session 3: Market Research

Learning Objective

6. Learn the role of market research in the PBSA process (what it is and why we do it)
7. Learn how to do market research for performance-based service acquisitions.

March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*

An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Weinstock, Matthew, August 15, 2002. Buying Teams, GovExec.com,

Ferrara, Joe and Johnson, Collie, November 1995. Institutionalizing Integrated Product Teams, DOD’s commitment to Change, Program Manager Magazine, November – December 1995

Reading Material

Pages 5 - 7 of the Guiding Principles for found in Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*

Pages 11 –13 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Welch, Bob, September 2002. Commercial Keys to Performance-Based Acquisition. Contract Management Magazine, September 2002, Volume 42, Issue 9, Pages 20-24

Mather, Chip and Costello, Ann, February 2001. A Program Manager’s Guide to Realizing Marketplace Potential, Acquisition Solutions, Inc (Advisory), February 2001

Dickson, Bob, March 10, 2003. Federal

Contract Law: Feds should use market research to refine IT plans, Post-Newsweek Media, Inc.

Stokes, Allyson, undated. Market Research, NIH/Office of Acquisition Management and Policy

Federal Contract Law: Feds should use market research to refine IT plans

Session 4: The Performance Requirements and Outcome Analysis

Learning Objective

8. Learn how to develop and use a Performance Requirements and Outcome Analysis.
9. Learn how to develop and use a Requirements Analysis Matrix

Reading Material

Pages 8-10 of the Guiding Principles for found in Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*

Rogin, Ronne A., November 22, 2002. Performance-Based Service Contracting. Office of the Procurement Executive (Department of Treasury)

GAO, September 2002. Contract Management: Guidance Needed for Using Performance-Based Service Contracting. GAO-02-1049

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting

Session 5: The Performance Work Statement (PWS)/Statement of Objectives (SOO)

Learning Objective

10. Learn what a Performance Work Statement is and the process used to develop it.
11. Learn what a Statement of Objectives is and the process used to develop it.

Reading Material

Pages 11 –12 and Appendix H of the *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001*

Pages 17 –21 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Petersohn, Henry, April 2003.
Performance-Based Service Contracting
for Information Technology Requirements.
Contract Management Magazine/April
2003, Volume 43/Issue 4

Jennings, John B. and Jackson, Jr., Clyde
P., December 2002. PBSA at the Pentagon
Contract Management
Magazine/December 2002, Volume 42,
Issue 12 Pages 26 –27

Interagency Task Force on Performance-
Based Service Acquisition, July 2003.
Performance-Based Service Acquisition –
Contracting for the Future, Executive
Office of the President, Office of
Management and Budget, Office of
Federal Procurement Policy

Department of Energy, August 2001.
Performance-Based Contracting:
Development of a Performance Work
Statement

Kelman, Stanley, August 8, 1997.
Performance-Based Service Contracting
(PBSC) Solicitation/Contract/Task Order
Review Checklist,

Mather, Chip and Cotello, Ann, May 2001.
An Innovative Approach to Performance-
Based Acquisition: Using SOO,
Acquisition Directions, Advisory, May
2001, Acquisition Solutions, Inc.

Session 6: Performance Incentives and Penalties

Learning Objective

12. Learn how to apply and characterize
performance incentives and penalties.

Reading Material

Pages 13-14 and Appendix I of the
*Guidebook for Performance-Based
Services Acquisition (PBSA) in the
Department of Defense, March 2001.*

Pages 26-30 of An Interagency-Industry
Partnership in Performance, date unknown.

Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Garrett, Gregory A., April 2002. Performance-Based Contracting Incentives: Myths, Best Practices, and Innovation. Contract Management Magazine/April 2002, Volume 42, Issue 4, Pages 14-19

Owens, James G., December 2003. The Incentive-Term Arrangement: A New Strategy for Creating Value. Contract Management Magazine/December 2003, Volume 43, Issue 12, Pages 40-41

Edwards, Vernon J., February 2002. The Award-Term Incentive: A Status Report, Contract Management Magazine, February 2002, Volume 42, Issue 2. Pages 22 –27

Gill, Jim, February 2002. Incentive Contracting, Assessing the Risks, Contract Management Magazine, February 2002, Volume 42, Issue 2, Pages 42-44

Dickinson, Tom, February 2001. A Case for Multiple Incentives, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 10-13

Brands, Margaret, February 2001. Another Look at Award Fee Contracts, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 18-25

Edwards, Vernon J., February 2001. Award-Term: The Newest Incentive, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 44-48

Scan only: The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense

Session 7: Methods and Metrics to Assess/Manage Contractor Performance
Learning Objective

13. Learn the difference between “Quality Assurance and “Performance Assessment” and how to develop a Performance Assessment Plan.
14. Learn about assessment methodologies.

Acquisitions, General Policy Guidance,
Reading Material

Pages 15-17 and Appendix B and C of the *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.*

Pages 23-26 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Diernisse, Lisa, June 2003. Performance Metrics for Non-Mathematicians. Contract Management Magazine/June 2003, Volume 43/Issue 6, Pages 44-53

Adam, Peter S., November 2003. Performance-Based Service Metrics in IT. Contract Management Magazine, November 2003, Volume 43, Issue 11, Pages 18-26

GAO, June 2003. Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661

Session 8: Determine the Type of Service Contract
Learning Objective

15. Learn about the different types of performance-based service contracts and how to pick the right one for your procurement.

Reading Material

Pages 13-14 and Appendix B and C of the *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001*

Pages 25 - 30 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Reynolds, William E., December 2002. Performance-Based Contracting the USAID Experience. Contract

Management Magazine/December 2002,
Volume 42, Issue 12, Pages 40-47

Rosenberger, Robert, December 2003.
Performance-Based Contracting in a Non-
Performance-Based World. Contract
Management Magazine/ December 2003,
Volume 43, Issue 12, Pages 42-48

Martin, Lawrence L., November 2002.
Making Performance-Based Contracting
Perform: What the Federal Government
Can learn from State and Local
Governments, New Ways to Manage
Series, IBM Endowment for The Business
of Government, November 2002

FAR Part 16

Session 9: Contractor Selection Procedures

Learning Objective

16. Learn about the contractor selection process, the importance and how to develop the process to meet your PBSA requirements.

Reading Material

Pages 18-19 of the *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001*

Pages 31 - 36 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Hunt III, George R., September 2001.
Comparing Source Selection Techniques.
Contract Management
Magazine/September 2001, Volume 41,
Issue 9, Pages 10-16

Gardner, Steve W., June 1998. Source
Selection in a Streamlined Acquisition
Environment, Best Business Practices, PM:
May-June 1998

Garrett, Gregory A., May 2005.

Performance-Based Acquisition: The Real Essential Elements, Contract Management Magazine, May 2005, Volume 45, Issue 5, Pages 42-49

Session 10: Effective Management of Post-award Contract Performance

Learning Objective

17. Learn about the importance of effective management of post-award contract performance and how the PBSA “Team” must stay intact and assume different roles and responsibilities.

Reading Material

Pages 20 of the *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001*

Pages 37-41 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)

Reed, Anne and Welch, Bob, November 2005. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Contract Management Magazine, November 2005, Volume 45, Issue 11, Pages 16-25

Burman, Allan V., July 2000. Moving Backward to Get Ahead, Government Executive Magazine, July 2000, Volume 5 No. 3

Lawther, Wendell C., January 2002, Contracting for the 21st Century: A Partnership Model, New Ways to Manage Series, January 2002, The PricewaterhouseCooper Endowment, The Business of Government.

Session 11 – Team Presentations

Learning Objective

See what we have learned

Session 12 – Team Presentations

Learning Objective

See what we have learned

Reading Material

Other Team’s packages

Reading Material

Other Team’s packages

Table 1. Course Outline

II. INTRODUCTION

Government-wide performance-based service acquisition (PBSA) policy was first contained in Office of Federal Procurement Policy (OFPP) Letter 91-2 on service contracting that was issued on April 9, 1991. The OFPP letter was prompted by unsatisfactory performance and contract administration that coincided with an increase in Government's acquisition of services. The OFPP PBSA policy was subsequently incorporated in the Federal Acquisition Regulation (FAR), which defines PBSA as "structuring all aspects of an acquisition around the purpose of the work to be performed with the contract requirements set forth in clear, specific, and objective terms with measurable outcomes as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work."²

PBSA offers significant gains in contract quality, potential for cost savings, contractor responsiveness, and customer satisfaction. Though the implementation of PBSA has met with some resistance because of imbedded traditional methods of buying services and a misunderstanding of the how to apply PBSA, most of this can be overcome through proper training. With a declining acquisition workforce, contracting for the future must embrace these concepts and become more proficient in the use of PBSA. The federal government must overcome the barriers to fully adopt PBSA techniques as standard business practice.

The OFPP³ and DOD⁴ have each published best practices guidelines for the implementation of PBSA. This has gone a long way to further the implementation of PBSA, however, ineffective communications within acquisition teams (especially with program officials) and minimal investment in PBSA training remain impediments to wide-spread acceptance and implementation. Just as PBSA is a strategy that focuses on

² FAR Part 2.101 Definitions

³ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. <http://www.acqnet.gov> (November 2005)

⁴ Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

results, so must the training solutions that overcome these obstacles standing in the way of full and effective implementation of PBSA.

This instructor guide and associated materials was crafted to enhance the training and usage of existing material. It gives a better understanding of the materials available and provides a baseline training exercise that allows for hands-on, learn-by-doing approach to teaching both the acquisition workforce and technical or program management students how to participate and lead a PBSA acquisition.

There are many acquisition teams that have awarded and successfully managed PBSA contracts in spite of any barriers that may have stood in the way. The purpose of this instructor guide is to assist in the implementation of a course or courses that will assist with further implementation and success of PBSA throughout the federal government. Good luck with your training and further implementation of PBSA.

III. SESSION 1: INTRODUCTION TO PERFORMANCE-BASED SERVICE ACQUISITION (PBSA)

A. LEARNING OBJECTIVES

1. The primary learning objective of this session is to understand the current Department of Defense contracting policy, guidance, regulations and lessons learned on Performance-Based Service Acquisition.
2. The secondary learning objective is to fully define PBSA and the benefits derived from PBSA implementation.

B. INTRODUCTION

In this session performance-based contracting will be introduced as a process for doing service contracts for Department of Defense (DOD) and other federal agencies. It will discuss the terms used in performance-based service acquisition (PBSA) and regulation, policy and guidance that are driving the implementation. Using this instructor guide, along with the readings, will guide you through the process and provide some insight into the benefits of PBSA.

C. READING MATERIALS FOR SESSION 1

1. Instructor

Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*.

http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

FAR – Part 37 Service Contracting.

<http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/37.htm> (November 2005)

Department of Defense, 6/25/2004. Dispatch: Defense FAR Supplement – Commercial Procedures for Performance Based Service Contracts.

<http://fedgovcontracts.com/pe04-111.htm> (November 2005)

Army Material Command, October 13, 2004. Performance Based Service Acquisition (PBSA). <http://www.amc.army.mil/amc/rda/rda-ap/pbsa.html>

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting. <http://www.arnet.gov/Library> (November 2005)

Federal Register, July 21, 2004. Federal Acquisition Regulation; Performance-Based Service Acquisition; Proposed Rules. Federal Register/Vol. 69, No. 139

Law, Bob, December 2001. Coming Full Circle. Contract Management Magazine/December 2001, Volume 41, Issue 12, Pages 18-23

Wright, J. L. Capt, USAF and Feeney, J. B. TSGT, USAF, September 1999. 10 Most Frequently Asked Questions About Performance-Based Service Contracts. Contract Management Magazine/September 1999, Volume 39/Issue 9, Pages 10-14

An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. <http://www.acqnet.gov> (November 2005)

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting. <http://www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html> (November 2005)

2. Student

Department of Defense, March 2001. Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense. Pages 1- 4 and Appendix J, http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf

Law, Bob, December 2001. Coming Full Circle. Contract Management Magazine/December 2001, Volume 41, Issue 12, Pages 18-23

Wright, J. L. Capt, USAF and Feeney, J. B. TSGT, USAF, September 1999. 10 Most Frequently Asked Questions About Performance-Based Service Contracts. Contract Management Magazine/September 1999, Volume 39/Issue 9, Pages 10-14

D. WHAT IS PBSA?

The Department of Defense's "**Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense**," "dated December 2000⁵ defines PBSA as "acquisition strategies, methods, and techniques that describe and communicate measurable outcomes rather than direct performance processes. It is structured around defining a service requirement in terms of performance objectives and providing contractors the latitude to determine how to meet those objectives. Simply put, it is a method for acquiring and placing responsibility for how it is accomplished on the contractor." According to J.S. Gansler, The Under Secretary of Defense, January 2001⁶, the guidebook has the following goals:

- To promote performance-based strategies for services acquisition throughout the Department of Defense.

⁵ Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

⁶ J.S. Gansler, 2 January 2001, No Subject, cover letter for Guidebook for Performance-Based Services Acquisition in the Department of Defense.

- To educate the acquisition workforce and highlight the key element of performance-based acquisition
- To encourage innovative business practices within the DOD acquisition process.
- To promote the use of the commercial market place.
- To increase awareness that performance-based services acquisitions require participation from all stakeholders (the users, acquisition workforce personnel and industry) to ensure the requirement is adequately satisfied.

E. HISTORICAL PROSPECTIVE OF PBSA

“Nearly a century ago, the U.S. government used performance-based contracting to acquire one of the nation’s most historically significant purchases” Bob Law states in his article Coming Full Circle.⁷ The year of the award was 1908 and the winning contractor was the partnership of Wilbur and Orville Wright. The Army went from solicitation to delivery of a complex, revolutionary weapons system in less than 10 months. The Army Signal Corps used incentives and an abbreviated performance-based specification for delivery of a research and development prototype system and solicited for a “heavier-than-air flying machine,” that became the airplane. When comparing the Signal Corps’ work in 1908 to today’s FAR requirements, it appears that the Army did award a true performance-based contract to the Wright brothers. But, just as the Army learned in 1908 upon taking delivery of its new aircraft, today’s government acquisition personnel are learning that it will take qualified and well-trained team of professionals working together to overcome the obstacles and fully develop the potential of performance-based service acquisition.

The FAR Part 37.6 sets forth today’s criteria for the minimum mandatory requirements for performance-based contract. It is interesting to see how the Army’s performance-based purchase of the Wright flyer compares to the current FAR. The specific elements include:

⁷ Bob Law, December 2001. Coming Full Circle, Contract Management Magazine/December 2001, Vol. 1, Issue 12, pp. 18-23.

1. The contract must set forth a performance requirement that defines the work in measurable, mission-related terms. With the Wright flyer, the army did set forth its performance requirement for a heavier-than-air flying machine in measurable, mission-related terms.
2. The contract must establish – in terms such as quality, quantity, or timeliness – specific, measurable performance standards that must be attained. These standards must be tied to performance requirements. The army’s performance specification for a heavier-than-air flying machine required that the device carry two men aloft at a minimum speed of 40 miles per hour for at least 60 minutes.
3. A government quality assurance plan must be established that describes how the contractor’s performance will be measured against the performance standards. The Army Signal Corps’ contract set forth requirements for load, transportability, maximum speed, and endurance. While lacking a specific quality assurance plan to establish how the inspectors would review the flyer, the contract’s requirements were clear and unambiguous. However, a substantive quality assurance plan might have mitigated the need for a panel of eight officers to inspect the aircraft during the acceptance test.
4. The government must include specific procedures for reducing fees or prices of a fixed-price contract when services are not performed or do not meet contract requirements, and must include performance incentives where appropriate. The incentive included in the Wright brothers’ contract was in the amount of \$25,000 and the aircraft was required to perform as specified. If the flyer could remain aloft for more than one hour, the brothers could obtain an additional \$5,000 bonus – which they did ultimately earn.

F. PBSA TERMS AND DEFINITIONS

To meet the criteria for “performance-based,” an acquisition should contain, at a minimum, the following essential elements, which will be examined in greater detail in other sessions:

- **Performance Work Statement (PWS) or Statement of Objectives (SOO)** – Describes the requirement(s) in terms of measurable results or delineation of explicit objectives rather than by detailed prescriptive methods.
- **Performance Measurement Factors/Standards (PMFs)** – Criteria and related performance metrics by which to determine whether performance outcomes have been met; defining what is considered “acceptable performance.”
- **Incentives, Disincentives or Penalties** – While not mandatory, incentives should be used, as appropriate, to encourage performance that will exceed

the required performance standards. Penalties and incentives complement each other. Disincentives are contract provisions or penalties that address how to manage performance that does not meet established performance standards.

- **Quality Assurance Plan (QAP)** [also the Quality Assurance Surveillance Plan (QASP); formerly the Performance Assessment Plan (PAP) in DOD] –Methodology for determining how contractor performance will be measured and assessed against established objective performance standards.

G. POLICY BACKGROUND AND AUTHORITIES

On November 17, 2003 a Memorandum and directive came down from Deputy Assistant Secretary of the Navy (DASN) for Acquisition (ACQ)⁸ with changes to the Navy Acquisition Procedures Supplement (NAPS), establishing a reform requirement that generally prohibits the acquisition of services through the use of a contract or Task Order (TO) that is not performance-based. DOD policy at that time also required that 50% of services acquisitions (in terms of both dollars and actions) had to be performance-based by year 2005. An OMB Office of Federal Procurement Policy (OFPP) Memorandum, “Increasing the Use of Performance-Based Service Acquisition,” issued on September 7, 2004⁹ and which became effective for all agencies on October 1, 2004, refines policy and redefines the original target PBSA achievement levels of 50% of contract actions and dollars to instead be based solely on “40% of eligible contract dollars awarded in FY 2005.” A further policy clarification in the Directive defined that “if more than 50% of a contract requirement is performance-based, as measured in dollars, the entire service action may be coded as a PBSA.” These revisions in policy and the target PBSA achievement levels have been driven by broadly developed interagency experience and recognition that, “there are a few types of services that are not particularly well suited to PBSA.” Such services as General Science and Technology R&D phases, including: 1) Basic Research, 2) Applied Research, 3) Advanced Technology Development, 4) Demonstration and Validation, and 5) Engineering and Manufacturing Development,

⁸ R. E. Cowley, November 17, 2003. Change to Navy Acquisition Procedures Supplement (NAPS) Pertaining to Approval Requirements for Service Acquisitions.

⁹ Robert A. Burton, Executive Office of the President, Memorandum for Chief Acquisition Officers/Senior Procurement Executives, Increasing the Use of Performance-Based Service Acquisition <http://www.acqnet.gov/Notes/MemoCAO-PE%20Reporting%20Requirements.pdf>. (November 2005)

have been listed as excluded from the list of eligible service contracts or orders for mandatory PBSA reporting (FAR 37.102 and the Federal Procurement Data System (FPDS) are being revised to update these exclusions). Military Departments have been instructed to exclude the listed services having “low potential for utilizing PBSA” when computing percentage of PBSA contract dollars (consistent with OFPP) and to “focus efforts on the areas of greatest potential benefit.” An additional instruction of Defense Federal Acquisition Regulation Supplement (DFARS) 237.170-3 now requires that any acquisition of services at or below \$50,000,000 that is **not** performance-based, must be approved by the agency Head of Contracting Agency (HCA

H. PBSA AUTHORITY

The reform policy establishing a performance-based contracting approach for all services except A&E, construction, services incidental to commodity purchases, utilities, and the Technology R&D identified above is found in FAR 37.102. It is the policy of the Federal Government that (1) agencies use performance-based contracting methods to the maximum extent practicable when acquiring services, and (2) agencies carefully select acquisition and contract administration strategies, methods, and techniques that best accommodate the requirements.

Further, the Government Performance and Results Act (GPRA) mandates accountability in the conduct of these contracting activities. GPRA was put on place during the 1990s by congress to improve federal program effectiveness, accountability, and service delivery; and enhancing congressional decision making by providing more objective information on program performance.¹⁰ GPRA requires multi-year strategic planning (started in 1997 and must be updated every three years), annual performance planning with performance goals, annual performance reporting with performance results and verification and validation, and a linkage of the performance results to the budget.

I. POLICY GUIDANCE

The OFPP, an office within the Office of Management and Budget (OMB) rescinded its 1998 Guide to Best Practices for Performance-Based Service Contracting.

¹⁰ Government Performance and Result Act of 1993. <http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html>. (November 2005)

Agencies are encouraged by the OFPP Memorandum of September 7, 2004 to develop their performance based acquisitions by employing use of the Seven Steps to Performance-Based Service Acquisition Guide,¹¹ available at www.acqnet.gov (November 2005), which is updated regularly by an interagency team led by the General Services Administration (GSA), to reflect the latest policies and best practices. The Office of the Under Secretary of Defense, Acquisition Technology and Logistics, issued a similar implementing Memorandum earlier on August 19, 2003 directing all DOD Secretaries of the Military Departments, Senior Acquisition Executives, and all personnel who prepare Statements of Work for services contracts to employ the same referenced Guide.

1. Benefits Deriving from PBSA Implementation

Performance-based service acquisition can accomplish numerous beneficial objectives. They include:

- Increased likelihood of meeting mission needs through PBSA contractor incentivization.
- Focus is shifted to intended results orientation, not process orientation.
- Better value and optimization of performance by allowing a contractor to provide the required service by following its own best practices. Since the prime focus is on the end result, contractors can modify their processes, as appropriate, throughout the life of the contract without the encumbrance of contract modification approvals, provided that the delivered service (results) remains consistent with contract requirements.
- Reduced performance risk by significant shift from Government to industry resulting from contractor responsibility for achievement of Statement of Work (SOW) objectives deriving from application of their own best practices and processes.
- No detailed specification or process description needed because of results/objectives orientation of solicitations.
- Enhanced contractor flexibility in proposing solutions based upon exercise of its own unique expertise and in-house capabilities.
- Enhanced competition and innovation is prompted by use of performance requirements to maximize opportunities for competitive alternatives in lieu of Government-directed solutions.

¹¹ Seven Steps to Performance-Based Services Acquisition, An interagency-Industry Partnership in Performance, <http://www.acqnet.gov>. (November 2005)

- Since PBSA allows for greater innovation, it has the potential to attract a broader industry response. [Possibly make this last sentence a new bullet.]
- Contractor buy-in and shared interests also promote innovation and cost savings.
- Performance assessment of contractor can be less frequent, but more meaningful.
- Results are documented for Government Performance and Results Act of 1993 (GPRA) reporting, as an automatic by-product of Performance-Based Service (PBS) acquisition.

Performance-based service acquisition focuses on results instead of methods. Capt. Jonathan L. Wright, USAF and TSGT Jeffery B. Feeney, USAF talks about how performance is tied to vision and goals in their article “10 Most Frequently Asked Questions About Performance-Based Service Contracting.”¹² This gives a good perspective to the performance-based contracting environment and lessons learned about some of the questions that come up from both the contracting and technical communities and are recommended reading.

J. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

Class will divide up into groups of no less than three and no more than five. The groups will work together throughout the course as the integrated acquisition team. In the next session the team’s roles and responsibilities will be further defined. For this session an exchange of contact and schedule information should be completed.

Students will access the web-enabled 7 steps performance-based contracting guide at <http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/home.html> (November 2005) to become familiar with the site.

K. READINGS ASSIGNMENTS FOR SESSION 2

Pages iv of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf

An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.)
<http://www.acqnet.gov/library/OFPP/BestPractices/pbsc>

¹² Jonathan L. Wright and Jeffery B Feeney, September 1999. 10 Most Frequently Asked Questions About Performance-Based Service Contracting. Contracting Management Magazine September 1999, Volume 39/Issue 9, pp. 10 -14.

Weinstock, Matthew, August 15, 2002. Buying Teams, GovExec.com,
<http://www.govexec.com/top200/02top/s1.htm> (November 2005)

Ferrara, Joe and Johnson, Collie, November 1995. Institutionalizing Integrated Product Teams, DOD's commitment to Change, Program Manager Magazine, November – December 1995.
<http://www.dau.mil/pubs/pm/pmpdf95/offsite1.pdf#search='integrated%20acquisition%20teams'> (November 2005)

THIS PAGE INTENTIONALLY LEFT BLANK

IV. SESSION 2: THE INTEGRATED SOLUTION TEAM

A. LEARNING OBJECTIVES

1. Learn about the Office of the Secretary of Defense's (OSD) PBSA Guiding Principles.
2. Learn how to develop an Integrated Product Team (IPT) for the acquisition process.
3. Learn the roles and responsibilities of the "Team" during pre-award and post-award for the PBSA process.

B. INTRODUCTION

In this session there will be a quick review of on Performance-Based Service Acquisition (PBSA) using OSD PBSA Guiding Principles. This will introduce the class to the team concept and how levels of empowerment are critical to success. The focus of the rest of the session will be on the development of the "team" and roles and responsibilities the members will assume for pre-award and post-award PBSA processes. The class will also look at the web-enabled 7 Steps to Performance-Based Contracting and its value as the class carries out their assignments.

C. READING MATERIALS FOR SESSION 2

1. Instructor

Review of the Guiding Principles found in Department of Defense, March 2001. Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Review the Web-Enabled application of Seven Steps to Performance-Based Services Acquisition. <http://www.acqnet.gov> (November 2005)

Kelly, John, February 2000. Using Teams in the Acquisition Process, Defense Systems Management College Program Management and Leadership Department (Teaching Note (PM 1), http://www.nwc.navy.mil/electives_list/EL547/Week2/PM1%20TN2.htm (November 2005)

Weinstock, Matthew, August 15, 2002. Buying Teams, GovExec.com, <http://www.govexec.com/top200/02top/s1.htm> (November 2005)

Ferrara, Joe and Johnson, Collie, November 1995. Institutionalizing Integrated Product Teams, DOD's commitment to Change, Program Manager Magazine, November – December 1995. <http://www.dau.mil/pubs/pm/pmpdf95/offsite1.pdf#search='integrated%20%20acquisition%20teams> (November 2005)

2. Students

Pages ii and iii of the Guiding Principles are found in Department of Defense, March 2001. Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Weinstock, Matthew, August 15, 2002. Buying Teams, GovExec.com, <http://www.govexec.com/top200/02top/s1.htm>

Ferrara, Joe and Johnson, Collie, November 1995. Institutionalizing Integrated Product Teams, DOD's commitment to Change, Program Manager Magazine, November – December 1995.
<http://www.dau.mil/pubs/pm/pmpdf95/offsite1.pdf#search='integrated%20acquisition%20teams'> (November 2005)

D. OSD PERFORMANCE-BASED SERVICES ACQUISITION GUIDING PRINCIPLES

“Participants in the acquisition process should work together as a **team** and should be empowered to make decisions within their area of responsibility,”¹³ (Statement of Guiding Principles for the Federal Acquisition System, FAR 1.102(a), FAR 1.102-3, FAR 1.102-4). Clearly defined levels of empowerment are critical to success [of the PBSA process]. Laws, policies, and regulations have dramatically changed the procurement process into one that must operate with a mission-based and program-based focus. Because of this, many more types of people, representing technical, program, financial, logistics, legal and contracting staff, working cooperatively across organizational boundaries toward a common goal is the new paradigm employed by progressive organizations. The goal has been to effectively integrate all stakeholders' efforts toward mission accomplishment. Recognition that team composition can be a critical success factor in performance-based acquisition, is the model that OMB (OMB Circular A-11 (2003)) is seeking when it asks the question of agencies in their budget submissions: “Will an Integrated Project Team [(IPT)-acquisition team)] manage the

¹³ Pages ii and iii of the Guiding Principles for found in Department of Defense, December 2000. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense.* http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf. (November 2005)

[acquisition] process?” OMB-OFPP guidelines now describe such acquisition teams as “integrated solutions teams.”

DOD/OSD, as a key participating member of the Federal Acquisition Council and the Interagency Task Force for PBSA, embraces the above operating philosophy and instructs acquisition personnel to adhere to the following Top-Level Guiding Principles:

- To the maximum extent practicable, agencies shall use performance-based methods for acquiring services.
- Fixed-price, performance-based commercial service acquisitions are complementary strategies that encourage commercial contractors to conduct business with DOD.
- Utilize a multi-functional acquisition team to the maximum extent practicable. Support it with a knowledge management infrastructure.
- Early planning is essential in determining requirements and assessing market conditions, and it should include the user/sponsor and as many relevant acquisition team members as possible.
- To maximize returns for all stakeholders, acquisition strategies should be tailored on the basis of experience, market research, and risk. Performance-Based Services Acquisition (PBSA) is not a “one size fits all” process.
- Strive to define requirements in clear, concise language. Focus on specific work outcomes and ensure that they are measurable to the greatest extent practicable.
- Templates are only a partial solution. Sample work statements should be individually tailored to the requirement, and for more complex requirements, work statements should be uniquely crafted.
- Through market research, public meetings, and draft solicitations, seek industry comment and suggestions regarding performance objectives, standards, and incentives.
- Incentives should motivate a contractor to achieve performance levels of the highest quality consistent with economic efficiency. Ensure that incentives are effective and that they reflect value both to the Government and to the contractor.
- Contractor performance assessments (the process known as “quality assurance”) should focus on outcomes rather than on contractor processes. Focus on insight of the contractor performance, not oversight.
- Periodic assessment of contractor performance should emphasize clear communication, with the objective of encouraging and maintaining high

standards of performance, and it should be consistent with past-performance assessments.

E. THE PBSA INTEGRATED SOLUTION TEAM

The “Seven Steps to Performance-Based Acquisition”¹⁴ identifies step one as the establishment of an integrated solution team. This virtual guide developed recently by an interagency-industry team is a good place for the class “teams” to start to look at what they have ahead of them. The Department of Commerce and the Office of Federal Procurement Policy were the originators of the virtual guide to assist acquisition personnel and improve their service contracting skills. It also has the purpose of educating the greater “acquisition community,” including the program managers, program staff, customers, and others whose participation is vital to a successful performance-based acquisition.

This web-enabled guide (<http://205.130.237.11/Library/OFPP/BestPractices/pbsc/home.html>) delivers information on the Internet into the seven critical, strategic steps of performance-based acquisition, a library of guidance, and links to samples and examples. This guide, geared to the greater acquisition community (especially program offices), breaks down performance-based service acquisition into seven simple steps.

- Establish an integrated solutions team
- Describe the problem that needs solving
- Examine private-sector and public-sector solutions
- Develop a performance work statement (PWS) or statement of objectives (SOO)
- Decide how to measure and manage performance
- Select the right contractor
- Manage performance

The intent is to make the subject of performance-based acquisition accessible and logical for all and shift the paradigm from traditional “acquisition think” into one of

¹⁴ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

collaborative, performance-oriented teamwork with a focus on program performance, improvement, and innovation, not simply contract compliance.

The PBSA integrated solution team is expected to be a sponsor-focused, multi-functional team that plans, implements, and manages a service contract throughout the life of the requirement. The requirement may be for a single function or for multiple activities. Estimated dollar value should not be the sole determinant of the amount of effort to be devoted to the acquisition. An integrated solution or acquisition team may be made up of many functional experts such as the following.

1. Sponsor/User

Responsible for defining the requirement, including an assessment of the risk that the Government might assume when relying on commercial specifications and common marketplace performance and quality standards. The sponsor/user also plays an important role in deciding what tradeoffs can be made when considering a commercially available service to fulfill an agency requirement.

2. Technical Specialist/Project Manager/Program Manager

These people serve as the principal technical experts and are usually the most familiar with the requirement and best able to identify potential technical tradeoffs and determine whether the requirement can be met by a commercial solution.

3. Contracting Officer/Contract Specialist

Serves as the principal business advisor and principal agent for the Government responsible for developing the solicitation, conducting the source selection, and managing the resultant contract and business arrangement. This individual researches contracts in the marketplace to identify general business practices such as commercial terms and conditions, contract type, bid schedule breakout, and the use of incentives.

4. Cost/Price Analyst

Analyzes and evaluates financial price- and cost-based data for reasonableness, completeness, accuracy, and affordability. Alternatively, some agencies utilize cost engineering personnel from within an engineering division to conduct cost/price analysis from a technical standpoint.

5. Performance Assessment Personnel (Quality Assurance Personnel):

Performance assessment personnel are known by many names, such as quality assurance evaluator (QAE), Contracting Officer's Representative (COR), or Contracting Officer's Technical Representative (COTR), but their duties are essentially the same. They serve as the onsite technical managers assessing contractor performance against contract performance standards. Performance assessment personnel are responsible for researching the marketplace to remain current with the most efficient and effective performance assessment methods and techniques.

6. Small and Disadvantaged Business Utilization (SADBU) Specialist

Serves as the principal advisor and advocate for small business issues. Also serves as the liaison with the Small Business Administration (SBA).

7. Finance/Budget Officer

Serves as an advisor for fiscal and budgetary issues.

8. Legal Advisor

Ensures that the commercial practices and terms and conditions contemplated are consistent with the Government's legal rights, duties, and responsibilities. Reviews for legal sufficiency and advises on acquisition strategies and contract provisions.

9. Miscellaneous Others

Personnel from outside the agency may also be useful, depending on their area of expertise. These include people from agencies such as the Defense Logistics Agency, the Defense Contract Audit Agency, the Defense Finance and Accounting Service, the Defense Contract Management Agency, and the Environmental Protection Agency, to name a few.

Depending on the size of the acquisition, the size of the team may vary. Typically, the teams are much smaller than having representatives from all of the elements listed above. The smaller team is more efficient and can go outside of the team for expertise as needed. For the purposes of the class teams, the roles will be limited to what is needed for the team to produce the outcome that is desired for the particular requirement.

Establishing an integrated solution team is one of the most important steps in a successful performance-based service acquisition. Dating back to July 20, 1995, when Dr. Paul G. Kaminski, Under Secretary of Defense (Acquisition and Technology), hosted a conference on “Institutionalizing Integrated Product Teams: DOD’s Commitment to Change,”¹⁵ the implementation of the acquisition team concept has been maturing. Though this is an historical look back, the results of over 10 years of implementation are starting to pay off. In February 2000, John Kelly introduced “Using Teams in the Acquisition Process”¹⁶ to the Defense Systems Management College. Mr. Kelly addressed, among other things, the benefits of using teams:

- Better Focus on Vision, Goals and Tasks
- Improved Communications
- Synergy
- Creativity and Innovation
- Improved Problem Solving and Decision Making
- Capitalizing on Conflict
- Professional Development
- Effective Use of Resources
- Better Stakeholder Relationships

Mr. Kelly pointed out that these benefits do not occur automatically simply by creating a team and they do not come easily or quickly. Rather, the people (members of the team) must take specific actions to transform themselves from a collection of individuals into a highly cohesive, effective performing team. This is precisely the intent of this course and the objective of this session, to stress the importance teams play in the success of the performance-based service acquisition process.

¹⁵ Joe Ferrara and Collie Johnson, November 1995. Institutionalizing Integrated Product Teams: DOD’s Commitment to Change, Program Manager Magazine, November – December 1995 pp. 2 – 5, <http://www.dau.mil/pubs/pm/pmpdf95/offsite1.pdf#search='Integrated%20acquisition%20teams'> (November 2005)

¹⁶ John Kelly, February 2000. Using Teams in the Acquisition Process, Defense Systems Management College Program Management and Leadership Department (Teaching Note (PM 1), http://www.nwc.navy.mil/electives_list/EL547/Week2/PM1%20TN2.htm (November 2005)

Matthew Weinstock's article Buying Teams¹⁷, points out that the team's focus has the ultimate goal of developing the best strategy to fulfill the agency's mission or the requirement. Some key features of a successful integrated team, according to an Acquisition Solutions' white paper, are:

- Shared Leadership.
- Individual as well as mutual accountability.
- Collective work products.
- Performance measures.

"Building a team is not an easy chore. The team's leader must be able to bring together divergent views and elicit the best from co-workers," says Christine Stelloh-Garner, head of the Navy's Acquisition Reform Office.

Part of the students' success will rely on how well they are able to build their team and get results. Though each team will be responsible for assigning roles to individuals, the team should be representative of many types of people, technical, program, financial, logistics, legal and contracting staff, working cooperatively across organizational boundaries toward a common goal.

A key objective for this session is to understand the roles and responsibilities of the team to improve the quality and continuity of both the acquisition process and the contract management oversight following award. The ability to accomplish this objective is driven by proper management of a given project's knowledge base.

F. ROLES AND RESPONSIBILITIES OF THE "TEAM"

The Federal Acquisition Regulation (FAR) 1.102(a), clearly defined levels of empowerment are critical to success. "Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility," (Statement of Guiding Principles for the Federal Acquisition System).

Laws, policies, and regulations have dramatically changed the procurement process into one that must operate with a mission-based and program based focus. Because of this, many more types of people, representing technical, program,

¹⁷ Matthew Weinstock, August 15, 2002. Buying Teams, GovExec.com, <http://www.govexec.com/top200/02top/s1.htm> (November 2005)

financial, logistics, legal and contracting staff, working cooperatively across organizational boundaries toward a common goal is the new model employed by progressive organizations.

The goal has been to effectively integrate all stakeholders' efforts toward mission accomplishment. Recognizing that team composition can be a critical success factor in performance-based acquisition, this is the model that OMB is seeking when it asks the question of agencies in their budget submissions: “Will an Integrated Product Team (acquisition team) manage the [acquisition] process?”

Regardless of its representation, the acquisition team has the daunting responsibility for ensuring that its acquisitions:¹⁸

- Satisfy legal and regulatory requirements;
- Have performance objectives, to the greatest possible extent, consistent with the requirements;
- Successfully meet the mission objectives and intended results; and
- Requirements for schedule and cost objectives.

An important consideration is that because the current acquisition laws, regulations and policies have changed significantly, many more types of people, representing technical, program, financial, logistics, legal and contracting staff, working cooperatively across organizational boundaries toward a common goal, is the new paradigm that the Office of Management and Budget encourages and inquires about when conducting their budget review process for acquisition funding. A key objective for the team approach is to improve the quality and continuity of both the acquisition process and the contract management oversight following award. The ability to accomplish this objective is driven by proper management of a given project's knowledge base.

¹⁸ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Developing rules of conduct for the team, gives clear purpose and a defined approach for working together. This was described by Bruce W. Tuckman as a process of forming, storming, norming and performing in groups.¹⁹ Tuckman described the stages as:

- Orientation, testing and dependence constitute the group process of *forming*.
- Resistance to group influence and task requirements and may be labeled as *storming*.
- Intimate, personal opinions are expressed, thus, we have the stage of *norming*.
- Structure can now become supportive of task performance and this stage can be labeled as *performing*.

The next step would be empowerment, which was best described in the guiding principles for the Federal Acquisition System covered earlier in this session: “Participants in the acquisition process should work together as a team and should be empowered to make decision within their area of responsibility.” (FAR 1.102(a))

To the maximum extent possible, the process should describe the work objectives in terms of what is to be the required, output rather than how the work is to be accomplished and placing the responsibility for that accomplishment on the contractor. The foundation for a successful acquisition involves a clear answer to these three questions:²⁰

- What is needed?
- When and where is it needed?
- How do we know it is good when we get it?

G. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

The Teams that were formed in session 1 (3 to 5 students) shall pick a requirement for performance-based service acquisition solution that they will use as their

¹⁹ M. K. Smith (2005) 'Bruce W. Tuckman - forming, storming, norming and performing in groups, *the encyclopedia of informal education*, www.infed.org/thinkers/tuckman.htm. Last updated: March 14, 2005. (November 2005)

²⁰ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

class project for the rest of the sessions. They should pick something that the team as a whole has some knowledge. Examples:

- Information Technology Services
 - Help Desk
 - Seat Management
- Systems Integration
- Software Development
- System Design/Business Process Re-Engineering
- Science, Engineering and Technical Assistance (SETA) Support

The team shall now define roles and responsibilities (program management, acquisition, customer, etc.) of each member of the team. The teams may want to pick a leader to facilitate assignment of roles and responsibilities or may be able to divide the roles and assign the responsibilities based on the role. Successful teams have shared responsibilities as well as shared accountability; the result of the team effort is collective work-products. This is important part of the forming of the group and how they will be able to meet the challenges of the following sessions. Often the roles and responsibilities are not always clearly divisible between the team members. Keep the communications lines open all of the time and share information between the members.

The team should develop rules of conduct regardless of how they organize themselves. It is important for the team members to understand how they will conduct business within the group. It is acceptable if not all members think alike, but the team must get past their differences and get the job done. Empowerment of individual team members is key to the success of the team. Each team member should be given individual, as well as mutual responsibility and accountability for their contribution to the solution. The team should leverage off of the strengths of the team members, so it is important for the team to know and recognize those strengths. All of the skills of the collective team and more are necessary to create a true performance-based approach to their requirement.

The teams shall identify a stakeholder(s) for their requirement, such as a customer, the public, an organization, or branch of the military. Understand the stakeholder's interest, objectives and possibly their objections to the solution.

The team shall approach the solution as if they will have responsibility for the requirement until the objectives have been met or delivery by the contractor has been completed. Peter Ducker said, "How do you predict the future...you create it."²¹ This is the mindset the team needs to maintain throughout their project and learning experience. Focus both on the acquisition and the project management as if you were responsible from the initial discussions of the requirements through contract performance.

For the next session the teams will turn in the topics for their class projects.

H. READING ASSIGNMENT FOR SESSION 3

Pages 5 - 7 of the Guiding Principles for found in Department of Defense, March 2001. Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 11 –13 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Welch, Bob, September 2002. Commercial Keys to Performance-Based Acquisition. Contract Management Magazine/September 2002, Volume 42/Issue 9

Mather, Chip and Costello, Ann, February 2001. A Program Manager's Guide to Realizing Marketplace Potential, Acquisition Solutions, Inc (Advisory), February 2001 <http://www.amc.army.mil/amc/rda/rda-ac/pbsc/adv0201.pdf> (November 2005)

Dickson, Bob, March 10, 2003. Federal Contract Law: Feds should use market research to refine IT plans, Post-Newsweek Media, Inc <http://appserv.gcn.com/cgi-bin/udt/im.display.printable?client.id=gcn2&story.id=21329> (November 2005)

Stokes, Allyson, undated. Market Research, NIH/Office of Acquisition Management and Policy, <http://oamp.od.nih.gov/ProgramNotes/Marketing/marketreserch.htm> (November 2005)

²¹ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) p. 7, <http://www.acqnet.gov>. (November 2005)

Market Research web site
<http://www.acqnet.gov/Library/PreSolicit/presolicit.html> (November 2005)

Federal Contract Law: Feds should use market research to refine IT plans
<http://appserv.gcn.com/cgi-bin/udt/im.display.printable?client.id=gcn2&story.id=21329>
(November 2005)

THIS PAGE INTENTIONALLY LEFT BLANK

V. SESSION 3: MARKET RESEARCH

A. LEARNING OBJECTIVE

1. Learn the role of market research in the PBSA process (what it is and why we do it)
2. Learn how to do market research for performance-based service acquisitions.

B. INTRODUCTION

Market research is the continuous process of collecting and analyzing data to determine the commercial capability for meeting a specific requirement. This is necessary to determine how well the market place can satisfy the need. It basically helps the integrated solution team develop the optimum strategy for meeting the requirements. In this session the class will review the requirements for why market research is important and how it will be used to begin to formulate their acquisition solution.

C. READING MATERIAL FOR SESSION 3

1. Instructor

Welch, Bob, September 2002. Commercial Keys to Performance-Based Acquisition. Contract Management Magazine/September 2002, Volume 42/Issue 9

Mather, Chip and Costello, Ann, February 2001. A Program Manager's Guide to Realizing Marketplace Potential, Acquisition Solutions, Inc (Advisory), February 2001 <http://www.amc.army.mil/amc/rda/rda-ac/pbsc/adv0201.pdf> (November 2005)

Dickson, Bob, March 10, 2003. Federal Contract Law: Feds should use market research to refine IT plans, Post-Newsweek Media, Inc <http://appserv.gcn.com/cgi-bin/udt/im.display.printable?client.id=gcn2&story.id=21329> (November 2005)

Stokes, Allyson, undated. Market Research, NIH/Office of Acquisition Management and Policy, <http://oamp.od.nih.gov/ProgramNotes/Marketing/marketreserch.htm> (November 2005)

Market Research web-site
<http://www.acqnet.gov/Library/PreSolicit/presolicit.html> (November 2005)

Performance-Based Contracting Desk Reference, Know net
<http://knownet.hhs.gov/acquisition/performDR/LAI/UnitOne/whatisa.htm> (November 2005)

2. Student

Pages 5 - 7 of the Guiding Principles for found in Department of Defense, March 2001. Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 11 –13 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Welch, Bob, September 2002. Commercial Keys to Performance-Based Acquisition. Contract Management Magazine/September 2002, Volume 42/Issue 9

Mather, Chip and Costello, Ann, February 2001. A Program Manager's Guide to Realizing Marketplace Potential, Acquisition Solutions, Inc (Advisory), February 2001 <http://www.amc.army.mil/amc/rda/rda-ac/pbsc/adv0201.pdf> (November 2005)

Dickson, Bob, March 10, 2003. Federal Contract Law: Feds should use market research to refine IT plans, Post-Newsweek Media, Inc <http://appserv.gcn.com/cgi-bin/udt/im.display.printable?client.id=gcn2&story.id=21329> (November 2005)

Stokes, Allyson, undated. Market Research, NIH/Office of Acquisition Management and Policy, <http://oamp.od.nih.gov/ProgramNotes/Marketing/marketreserch.htm> (November 2005)

Market Research web-site
<http://www.acqnet.gov/Library/PreSolicit/presolicit.html> (November 2005)

Federal Contract Law: Feds should use market research to refine IT plans <http://appserv.gcn.com/cgi-bin/udt/im.display.printable?client.id=gcn2&story.id=21329> (November 2005)

D. WHAT IS “MARKET RESEARCH” AND WHY IS IT NEEDED?

Market research is a requirement of FAR Part 10, which prescribes the policies and procedures for conducting market research to arrive at the most suitable approach to acquiring, distributing, and supporting supplies and services. Seven Steps to Performance-Based Acquisition²² views market research as an examination of both private-sector and public-sector solutions to the intended results of the requirements. It is a vital means of providing the team with the expertise they need as a base to start to write the performance work statement (PWS). Bob Welch's article Commercial Keys to Performance-Based Service Acquisition, examines some of the best practices from the commercial sector that are increasingly being used in government acquisition offices and centers. Bob Welch points out that the “right kind” of market research can dramatically

²² An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

shape an acquisition and draw powerful, solution-oriented ideas from the private sector. He thought that the most fruitful and effective market research was one-on-one sessions with industry leaders (not “marketers”) to learn the state of the marketplace, commercial practices, and commercial performance. One-on-one market research has been permissible since the rewrite of FAR Part 15 in 1997. In fact, the FAR specifically promotes the exchange of information “among all interested parties, from the earliest identification of a requirement through the receipt of proposal.”²³

Market research is an essential step in writing a performance work statement or statement of objectives. Without a good understanding of what is available, the standards for performance may be set to high or to low. Getting it right means knowing what you can expect when you complete the requirements. As described in the February 2001 Acquisition Directions Advisory²⁴ “A Program Manager’s Guide to Realizing Marketplace Potential,” market research takes place before the government has begun to describe its requirements. Market research is the continuous process of collecting information to maximize reliance on the commercial marketplace and to benefit from its capabilities, technologies, and competitive forces in meeting an agency need. The article goes on to talk about the whens, whats and whys of government market research.

According to the Guide for Performance-Based Service Acquisition in the Department of Defense,²⁵ market research is the process of collecting and analyzing information on commercial capabilities, processes, pricing, incentives, warranties, and delivery and other standard terms and conditions. Information derived from market research will help the integrated solutions team develop the optimum acquisition strategy for meeting the requirements.

²³ FAR 15.201(a).

²⁴ Chip Mather and Ann Costello, February 2001. A Program Manager’s Guide to Realizing Marketplace Potential, Acquisition Solutions, Inc (Advisory), February 2001 <http://www.amc.army.mil/amc/rda/rda-ac/pbsc/adv0201.pdf>. (November 2005)

²⁵ Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf. (November 2005)

E. MARKET RESEARCH IN THE PERFORMANCE-BASED ACQUISITION PROCESS

There is no single, stand-alone step for market research in the PBSA process. Market research is a continuous process that should be revisited throughout the acquisition life cycle. The best approach is for all of the integrated solution team to be involved in the market research effort. A shared knowledge and understanding of the marketplace will be invaluable in the development of the acquisition strategy and performance work statement. Start by becoming familiar with the private-sector sources and solutions, check with other agencies for similar acquisitions or existing contracts, lessons learned and best practices. Use government and private-sector information data bases on past performance of potential sources. Consider one-on-one meetings with industry leaders once sources have been identified.

F. INTEGRATED SOLUTIONS TEAM FUNCTIONS AND RESPONSIBILITIES

Since market research should address both business and technical considerations of any requirement, it requires the active participation of all integrated solutions team members, as appropriate. These considerations might include technical approaches, common quality controls, contract structure, and standard industry terms and conditions. Therefore, when market research is being conducted, all members of the integrated solutions team should participate, as appropriate to their area of expertise. Some tips from the Guidebook for PBSA are to: start early, while the requirement is still flexible; involve users in the process; communicate; use teamwork to accomplish your goals; use market research to first determine the availability of commercial capabilities, practices, items, and services to meet the general requirement; use market research to obtain specific and detailed information to make various acquisition decisions; tailor the market research efforts, and do not waste valuable time; and refine as you proceed, from general to specific.

A nice guide is a paper from National Institute of Health²⁶, titled simply “Market Research,” it provides the answers to a lot of questions through bulletized answers. It

²⁶ Allyson Stokes, undated. Market Research, NIH/Office of Acquisition Management and Policy, <http://oamp.od.nih.gov/ProgramNotes/Marketing/marketreserch.htm>. (November 2005)

provides a more down-to-earth approach to explaining market research and may be something easy to follow. One of the features is the appendices. Appendix A gives us definitions of terms typically referred to in market research. Appendix B is a listing of all of the FAR prescriptions on market research excluding FAR Part 10. Appendix C is a sample market research checklist that could be very helpful along with the rest of the explanations provided in this paper.

Market research is not supposed to be easy, but it should be informative and a very valuable step in the process of performing a performance-based service acquisition.

G. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

Establish a preliminary scope statement, identify the objective or purpose of your procurement and define an initial magnitude of work to be performed.

Example: The objective of this effort is to acquire IT services for the Naval Post Graduate School, Monterey, CA.

Start your market research based on the preliminary scope statement, do not be afraid of modifying the scope statement based on your market research. The information you collect is analyzed to help determine how well your requirement can be met in the marketplace. Modification and tailoring of the service requirements is a normal step at this stage of the process. Market supportability of your requirements is going to be key in order to have adequate competition. Competition typically means either better services for the same price or the same services for a better price. The overall purpose of market research is to identify commercial practices and widely accepted commercial specifications and standards and to determine if there is a service in the commercial marketplace that will satisfy the Government requirement.

This is a good time for the teams to organize and assign responsibilities for market research on your requirements.

H. READING ASSIGNMENT FOR SESSION 4

Pages 8 - 10 of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.

http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Rogin, Ronne A., November 22, 2002. Performance-Based Service Contracting. Office of the Procurement Executive (Department of Treasury)

GAO, September 2002. Contract Management: Guidance Needed for Using Performance-Based Service Contracting. GAO-02-1049

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting.
<http://www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html> (November 2005)

VI. SESSION 4: THE PERFORMANCE REQUIREMENTS AND OUTCOME ANALYSIS

A. LEARNING OBJECTIVES

1. Learn how to develop and use a Performance Requirements and Outcome Analysis.
2. Learn how to develop and use a Requirements Analysis Matrix..

B. INTRODUCTION

In this session we apply the market research we have learned to describe and define our objectives and desired outcomes for the contract. This process will guide the integrated solutions team through a series of in-depth analysis so that they can understand the requirements fully in order to articulate the desired outcome in the form of a performance work statement or statement of objectives.

C. READING MATERIAL FOR SESSION 4

1. Instructor

Rogin, Ronne A., November 22, 2002. Performance-Based Service Contracting. Office of the Procurement Executive (Department of Treasury)

GAO, September 2002. Contract Management: Guidance Needed for Using Performance-Based Service Contracting. GAO-02-1049

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting.
<http://www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html> (November 2005)

Government Performance Results Act of 1993
<http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html> (November 2005)

Acquisition Reform Focus Group, May 13, 1997. Performance-Based Service Contracting (Depot & Installation). www.acq.osd.mil/dpap_archive/Docs/focus8.pdf (November 2005)

2. Student

Pages 8 - 10 of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Rogin, Ronne A., November 22, 2002. Performance-Based Service Contracting. Office of the Procurement Executive (Department of Treasury)

GAO, September 2002. Contract Management: Guidance Needed for Using Performance-Based Service Contracting. GAO-02-1049

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting.
<http://www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html> (November 2005)

D. IDENTIFICATION AND DEFINITION OF REQUIRED OBJECTIVES/DESIRED OUTCOMES

The most effective foundation for a procurement action is the intended effect of the contract in supporting and improving an agency's mission and performance goals and objectives (as reported annually to OMB in accordance with Government Performance Results Act of 1993 (GBRA)²⁷). Describing a performance-based acquisition in terms of how it supports these mission-based goals allows an agency to clearly establish the relationship of an acquisition to its business or mission and sets the stage for crafting a procurement action in which the performance goals of the Contractor and the Government are synchronized.

The Guidebook for PBSA²⁸ provides helpful analysis-oriented steps to help identify and define the requirements:

- **Definition of Desired Outcomes** – A series of analysis-oriented steps to help identify and define the sponsor's overall desired outcomes to be accomplished, from a top-level perspective, should be undertaken by appropriate team members. This can be a difficult task to properly define, but it is intended to be similar to an executive summary or overview of key requirements. The correct answers can generally be developed through facilitated working sessions with program technical staff, customers, and stakeholders. Greater innovation and insight is possible by avoiding the temptation to review past paperwork, files, or examination of the status quo.
- **Conduct of An Outcomes Analysis** – This process identifies specific performance objectives for those outcomes defined above. What tasks must be accomplished to arrive at the desired outcomes? Performance objectives are the specific services that need to be performed and

²⁷ Government Performance Results Act of 1993 [Why different font?]
<http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html>. (November 2005)

²⁸ Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf. (November 2005)

delivered by the contractor, defined in terms of the outcomes. This step differs from the overview of the desired outcomes in that it goes into greater detail and expands the analysis beyond the top-level overview perspective to address mission needs. Once an acquisition is linked to the sponsor's mission needs, the goal is to determine what, specifically, are the ultimate desired results (outcomes, outputs, quality, or any combinations) of contract performance (not how to accomplish the goal). In other words, what constitutes success? Just as important as a clear vision of desired results, it is important to establish a clear target for success, which can then serve to focus the efforts of the integrated solutions team in crafting the acquisition, the contractors in competing for award, and the contract management team throughout contract performance. These represent two distinct questions that can be asked to get a sense of proper direction:

- Where are we trying to go, and
- How will we know when we get there?

In DOD these results are identified as measurable outcomes. This analysis is begun by segregating desired outcomes into lower task levels and linking those tasks together into a logical flow of activities. To ensure that all critical elements of the requirement have been considered, a tree diagram is recommended in order to outline each of the basic outcomes (those top-level perspectives).

- **Conduct Performance Requirements Analysis** - When or how will it be possible to determine that outcomes have been satisfactorily achieved, and how much deviation from the performance standard should the contractor be allowed, if any? A performance requirements analysis is a process that identifies how a performance objective should be measured and thus, what performance standards, (e.g., timeliness or quality levels) are appropriate and reasonable for that particular performance objective. In this step, acceptable quality levels (AQLs), also known as "thresholds," may be identified. Performance standards and AQLs are very important in that they identify acceptable levels of performance. Developing and establishing performance standards and AQLs are judgment calls based on the needs of the mission, available expertise, and market research. A critical component of developing these AQLs is determining the current level of performance. The primary reason to determine the current level of performance is to be able to establish the baseline against which future performance can be measured. If one does not know where the beginning is, one cannot tell what progress has been made. It is not necessary that the Government perform the baseline measurement. In the case of existing contracts, an alternative approach would be to require a set of appropriate metrics as a deliverable. New solicitations can include a provision for

delivery of baseline and/or current performance levels either annually, at contract end, or both. The integrated solutions team has to determine the adequacy of the baseline data for any new contract to ensure achievement of best results. [This determination of the current level of performance success assumes the existence of a recent past or present project activity from which performance can be extracted.] The members of the integrated solutions team should work closely with each other when developing standards and AQLs.

AQLs constitute a minimally acceptable level of performance and are typically stated as a percentage of required conformances (e.g., on-time, 95% of the time) or as a number of permissible deviations (e.g., 1 error per x time period). In developing AQLs, one is asking, “What minimum level of quality is required to meet mission needs?” Not every performance standard may necessarily have an AQL. When a performance standard does not include an AQL, then one is stating that no deviations are allowed in meeting the performance outcome.

1. Examples of Performance Standards/Performance Measurement Factors

- Response times, delivery times, timeliness – meeting deadlines or due dates, adherence to schedule
- Error rates – number of mistakes/errors allowed in meeting the performance standard.
- Accuracy rates – similar to error rates, but most often stated in terms of percentages.
- Completion milestone rates – x percent complete at a given date.
- Cost control – keeping within the estimated cost or target cost. Applies in cost-reimbursement contract arrangement.

2. The Performance Requirements Analysis Matrix

It is helpful to capture the results of the Performance Requirements Analysis in a **Matrix** that can be used as an aid to facilitate later development of a Performance Work Statement. DOD recommends a 5-column matrix²⁹ with the following column headers:

- **Performance Objective:** What tasks must be accomplished to provide the desired outcomes?

²⁹ Guidebook for Performance-Based Service Acquisition in the Department of Defense, March 2001, Appendix B http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf. (November 2005)

- **Performance Standard:** What should be the standards or performance measurement factors (PMFs) for completeness, reliability, accuracy, timeliness, client satisfaction, quality and/or cost be?
- **Acceptable Quality Level (AQL):** How much error is acceptable?
- **Monitoring Method:** What will be the determinant that success has been achieved?
- **Incentives/Disincentives** [for meeting or not meeting the performance standards]: What carrot or stick will properly reward good performance or address poor performance?

Another source of examples of a matrix can be found in Ronne Rogin's paper "Performance-Based Service Contracting."³⁰ This paper provides a very good outline of the steps for development of a performance-based service contract with some very good examples of performance-based analysis matrixes. He refers to these matrixes as "Performance Based Contracting Templates" and they can be found as the attachments to his paper. This paper is good information for the teams to use as they develop their performance work statements. Ronne Rogin describes the analysis phase to include:

- Desired results/deliverables (what outcome is required?)
- Resources needed (are they available?)
- Workload frequency/quantity of desired work
- Standards of acceptability
- Object performance measures (do not forget to take baseline measures so progress can be assessed!)
- How much will it cost? (independent government cost estimate)

Describing requirements in terms of measurable outcomes and **not** in terms of **how** to accomplish the requirement is the key to performance-based acquisition. This applies equally to labor category descriptions. The Guidebook for PBSA, refers to manpower requirements as an example. Manpower requirements were previously commonly prescribed in terms of "required number of bodies" or other qualifiers such as college degrees or specific years of experience. Prescribing manpower requirements limits the ability of offerors to propose their best solutions, and it could preclude the use

³⁰ Ronne A. Rogin, November 22, 2002. Performance-Based Service Contracting. Office of the Procurement Executive (Department of Treasury)
www.ustreas.gov/offices/management/dcfo/procurement/training/pbscl.pdf. (November 2005)

of qualified contractor personnel who may be well suited for performing the requirement, but may be lacking—for example—a complete college degree or the exact years of specified experience. Current DOD guidance is to let the contractor determine his labor mix. This position has been driven by provisions of the 2001 Defense Authorization Act³¹ (now implemented in the FAR and DFAR) that specifically prohibit describing any minimum experience or educational requirements for proposed contractor personnel unless the contracting officer determines that the needs of the agency either (1) cannot be met without that requirement or (2) require the use of other than a performance-based contract.

Instead, the requirement should be described in a way that allows offerors to meet the requirement by applying alternative sets of resources. Offerors can then propose their best solutions for manpower requirements, in accordance with the described requirement. Once the offeror submits its proposal, the integrated solutions team will evaluate the offeror's proposal, including manpower solutions, for best value.

Since performance-based acquisition methodologies are results-oriented, DOD organizations should not focus on contractor-proposed labor mixes after contract award, as long as the desired outcome is achieved in accordance with the stated performance standards and any other requirements in the contract.

This is a good time to look at some of the Federal Acquisition Regulation that apply to performance-based contracting:

37.102(a) - Establishes performance-based contracting as the preferred method for acquiring services. A fixed price contract is preferred, however, other contract types can be performance-based.

37.601 - Prescribes attributes of performance-based contracts as including

(a) “requirements in terms of results required rather than methods of performance” - This would seem to include all completion-type requirements but does not necessarily preclude term-type efforts.

³¹ National Defense Authorization Act of Fiscal Year 2001
http://www7.nationalacademies.org/ocga/Laws/PL106_398.asp. (November 2005)

(b) “use measurable performance standards...” and “quality assurance surveillance plans.” Note that dictionaries define “measure” as including **qualitative** and **subjective** evaluations. This makes the concept very similar to what we do in a best value source selection.

(c) “Specify procedures for reductions to fee or for reductions to the price of a fixed-price contract when services are not performed or do not meet contract requirements”. Note: FAR already prescribes a fee impact procedure for completion requirements if the cost has been expended and all deliveries have not been made. Some negotiators also extend the concept to term requirements by asserting that the contractor has not delivered his “best efforts”. Also, if a deliverable date or a period of performance needs extending, negotiators find out why and routinely receive consideration from the contractor (frequently as a fee reduction) if the contractor is at fault.

(d) “Include performance incentives where appropriate”. Note that monetary incentives are not required. Other things can be of value to the contractor - such as the annual Contractor Performance Assessment Rating System (CPARS) evaluation result.

37.602-4 - “To the maximum extent practicable, performance incentives, either positive or negative or both, shall be incorporated into the contract ... These incentives ... shall be capable of being measured objectively”. Note that the regulations recognize that one size does not fit all.

46.401 - “Quality assurance surveillance plans should be prepared in conjunction with the preparation of the statement of work. The plans should specify (1) all work requiring surveillance, and (2) the method of surveillance.” This appears to leave wide discretion as to what to include in a QASP.

Going back to the PBSA definition above, the key to employing performance-based methodologies is to be able to describe requirements as outcomes/results and not in terms of how to accomplish the requirement. Therefore, a Performance-based Work Statement (PWS) or Statement of Objectives (SOO) must be structured to ensure that the requirement is carefully articulated in this manner. Accordingly, the integrated solutions

team will conduct a series of in-depth analyses to understand the requirement fully in order to be able to articulate the desired outcomes.

E. LESSONS LEARNED

The GAO report GAO-02-1049, Contract Management, “Guidance Needed for Using Performance-Based Service Contracting,”³² addressed the OFPP guidance on performance-based contract attributes:

- Describe the requirements in terms of result required rather than the methods of performance of the work.
- Set measurable performance standards.
- Describe how the contractor’s performance will be evaluated in a quality assurance plan.

Identify positive and negative incentives, when appropriate.

The report looked at 25 contracts and how well they met the performance-based attributes. The results ranged from nine contracts that clearly exhibited all of the attributes to contracts that exhibited only one of the attributes. This study demonstrated some of the problems with agencies understanding of performance-based contracting and how to take full advantage of it. OFPP recognizes this problem and is in the initial stages of developing new guidance on how to improve agency use of performance-based contracts. The study raises concern as to whether agencies have a good understanding of performance-based contracting and how to take full advantage of it. The better the understanding of commercial and performance-based contracting methods, the better the expected outcomes. GAO plans to put a task force together to continue to look at issues surrounding the definition and composition of performance-based contracting.

Another good lessons learned experience is Lt Col Casey Blake’s, article “Cost-Effective PBSA.”³³ In this article he addresses the success that Travis Air Force Base (AFB) in California has had with performance-based service contracts. The article offers some insight into government oversight, team efforts, the cost versus service analysis,

³² GAO, September 2002. Contract Management: Guidance Needed for Using Performance-Based Service Contracting. GAO-02-1049.

³³ Casey Blake, May 2001. Cost-Effective PBSA, Contract Management Magazine, May 2001, Volume 41, Issue 5.

performance-based service contracting process (including process for statements of work or objectives) and challenges the acquisition community will be facing as we continue to learn about PBSA.

F. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

1. Conduct an Analysis

The teams shall analyze their requirements and results from the market survey to determine the needs (what outputs/services are really needed?). This will start to form the basis for the performance-based work statement. Using a performance requirements summary matrix (like the one found in Appendix B of the Guidebook for PBSA or one of the examples found in Ronne Rogin's paper) start to translate the tasks required to make their requirement into performance requirements. Develop performance standards (characteristics of acceptable performance levels) and a realistic quality level in order to measure the performance. The Guidebook for PBSA describes three "analysis-oriented steps" that is "top down" approach to performance requirements analysis:

- *Define the desired outcomes:* List what needs to be accomplished in order to satisfy the overall requirement. Techniques: (1) Use an interview or brainstorming approach with the customer (user) to determine all dependent variables (what, when, where, who, quantity, quality levels, etc.) or (2) review previous requirements for validity and accuracy.
- *Conduct an outcome analysis:* Identify specific performance objectives for those outcomes defined in the previous step. Techniques: (1) Segregate desired outcomes into lower task levels and link those tasks together into a logical flow of activities and/or (2) use a tree diagram to outline each of the basic outcomes.
- *Conduct a performance analysis:* Identify how a performance objective should be measured and what performance standards are appropriate (including acceptable quality levels).

G. READING ASSIGNMENTS FOR SESSION 5

Pages 11 –12 and Appendix H of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 17 –21 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Petersohn, Henry, April 2003. Performance-Based Service Contracting for Information Technology Requirements. Contract Management Magazine/April 2003, Volume 43/Issue 4

Jennings, John B. and Jackson, Jr., Clyde P., December 2002. PBSA at the Pentagon Contract Management Magazine/December 2002, Volume 42, Issue 12 Pages 26 –27

Interagency Task Force on Performance-Based Service Acquisition, July 2003. Performance-Based Service Acquisition – Contracting for the Future, Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy

Department of Energy, August 2001. Performance-Based Contracting: Development of a Performance Work Statement,
<http://www1.pr.doe.gov/acqguide/AGChapter37.htm> (November 2005)

Kelman, Stanley, August 8, 1997. Performance-Based Service Contracting (PBSC) Solicitation/Contract/Task Order Review Checklist,
<http://www.arnet.gov/Library/OFPP/PolicyDocs/pbsckls.html> (November 2005)

Mather, Chip and Cotello, Ann, May 2001. An Innovative Approach to Performance-Based Acquisition: Using SOO, Acquisition Solutions, Inc, Acquisition Directions, Advisory

VII. SESSION 5: THE PERFORMANCE WORK STATEMENT (PWS)

A. LEARNING OBJECTIVES

1. Learn what a Performance Work Statement is and the process used to develop it.
2. Learn what a Statement of Objectives is and the process used to develop it.

B. INTRODUCTION

In this session the performance requirements and outcome analysis will be transformed into a performance work statement or a statement of objectives. The performance requirements summary becomes the baseline for the performance work statement or statement of objectives. In the performance work statement/statement of objectives process we will be describing what is needed, when and where it is needed and how we will know it is good when it is delivered.

C. READING MATERIAL FOR SESSION 4

1. Instructor

Petersohn, Henry, April 2003. Performance-Based Service Contracting for Information Technology Requirements. Contract Management Magazine/April 2003, Volume 43/Issue 4

Jennings, John B. and Jackson, Jr., Clyde P., December 2002. PBSA at the Pentagon Contract Management Magazine/December 2002, Volume 42, Issue 12 Pages 26 –27

Interagency Task Force on Performance-Based Service Acquisition, July 2003. Performance-Based Service Acquisition – Contracting for the Future, Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy

Department of Energy, August 2001. Performance-Based Contracting: Development of a Performance Work Statement, <http://www1.pr.doe.gov/acqguide/AGChapter37.htm> (November 2005)

Kelman, Stanley, August 8, 1997. Performance-Based Service Contracting (PBSC) Solicitation/Contract/Task Order Review Checklist, <http://www.arnet.gov/Library/OFPP/PolicyDocs/pbsckls.html> (November 2005)

Mather, Chip and Cotello, Ann, May 2001. An Innovative Approach to Performance-Based Acquisition: Using SOO, Acquisition Directions, Advisory, May 2001, Acquisition Solutions, Inc.

2. Student

Pages 11 –12 and Appendix H of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.

http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 17 –21 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Petersohn, Henry, April 2003. Performance-Based Service Contracting for Information Technology Requirements. Contract Management Magazine/April 2003, Volume 43/Issue 4

Jennings, John B. and Jackson, Jr., Clyde P., December 2002. PBSA at the Pentagon Contract Management Magazine/December 2002, Volume 42, Issue 12 Pages 26 –27

Interagency Task Force on Performance-Based Service Acquisition, July 2003. Performance-Based Service Acquisition – Contracting for the Future, Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy

Department of Energy, August 2001. Performance-Based Contracting: Development of a Performance Work Statement, <http://www1.pr.doe.gov/acqguide/AGChapter37.htm> (November 2005)

Kelman, Stanley, August 8, 1997. Performance-Based Service Contracting (PBSC) Solicitation/Contract/Task Order Review Checklist, <http://www.arnet.gov/Library/OFPP/PolicyDocs/pbsckls.html> (November 2005)

Mather, Chip and Cotello, Ann, May 2001. An Innovative Approach to Performance-Based Acquisition: Using SOO, Acquisition Directions, Advisory, May 2001, Acquisition Solutions, Inc.

D. PERFORMANCE WORK STATEMENT DEVELOPMENT PROCESS

According to Guidebook for PBSA,³⁴ let the contractor solve the problem and provide the labor mix to do it. Do not write the requirements so tightly that the same solution is offered by each offeror. The integrated solutions team will take the performance requirements analysis and describe the requirements in such a way the offeror will be able to understand fully what will be necessary to accomplish the requirements. Appendix H of The Guidebook for PBSA, provides the common elements of a performance work statement:

³⁴ *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.*
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf#search='Performance%20requirements%20analysis%20for%20PBSA'. (November 2005)

1. Introduction – Describes program goals, desired results to be achieved, interfaces that must be considered, and any previous problems that have been encountered. The introduction should provide a quick reference to what is being procured.
2. Background (optional) – Typically summarizes historical information that is necessary for the contractor to understand the current requirements. Gives the contractor an understanding of how and why the requirements evolved and where this requirement is headed. This section is for informational purposes only and no directions to the contractor should be included in this section.
3. Scope of Work – This is a summary section that briefly describes the purpose of the current work and the desired outcome. The contractor should understand the magnitude of the requirement and the scope should be consistent with the task (requirement/performance standards). The scope description should be at a high-level, emphasizing the most important aspects (an overview) of the technical requirements, avoiding minor details.
4. Applicable Directives – The purpose of this section is provide the contractor with any applicable documents that may be needed to complete the tasks. All documents should be properly cited, clearly stating the portion that applies. All documents should be pertinent to the task to be performed.
5. Requirements/Performance Standards – This portion is where the Performance Requirements Summary (PRS) matrix is transferred (or transformed) into the performance work statement, in other words, it is the textual form of the PRS, which contains greater detail. Adequate information that clearly defines the magnitude, quality, and scope of each outcome. A good test is if the requirements are specific enough for the writer to determine the levels of expertise, human resources, and other resources needed to accomplish the tasks. Make sure that the contractor's responsibilities are stated in such a way that it knows what is required and the government can tell if the contractor has complied. State the requirements in such a way that there is no question of whether the contractor is obligated to perform a specific task. The tasks should be presented in a logical and chronological order. The elements of quality assurance should be fully considered for all deliverables. All government obligations should be carefully and fully delineated, such as government furnished information and equipment, access to government facilities, and any provision taking control of work away from the contractor. Only the necessary requirements should be identified, do not try to over specify and try to eliminate “nice to have” or “catch all” types of statements.
6. Contract Deliverables – This section should establish a schedule of when the results happen and a means of documenting and delivering the results

to the Government. All points of control or decisions should be clearly defined. Specific authorization requirements and instructions for providing anything to anyone outside of the contracting officer, contracting officer's representative or designated persons. Designation of who can sign the acceptance report to determine if the contractor has complied with the requirements.

7. Data Requirements – This section contains information on data requirements, such as reports or any item contained within the Contract Data Reports List (CDRL). Strive to minimize data requirements, acquire only the data that is absolutely necessary.
8. Appendices – Contains any information that is both necessary and helpful to the contractor for either bidding or performance purposes.

Other guidelines, such as the Department of Energy's Guide "Development of a Performance Work Statement,"³⁵ provides definitions, analysis, procedures, samples and lessons learned that will be helpful with writing the performance work statement. All of these guidelines stress the need to write in clear, concise, commonly used, easily understood, measurable terms. Identify and define all tasks that are required, ensure there is a completion criteria for each task, and the tasks are tied together. Avoid unnecessary tasks and any how-too requirements. Keep in mind the following questions:

- Is there enough information for the contractor to determine what is required?
- Are the tasks written clearly, so that there is no doubt what is intended?
- Are the tasks stated so that the contractor can price the requirement?
- Will you know if the contractor complied with this requirement?

The Guidebook for PBSA provides some language principles that will be very helpful in writing the performance work statement. Strive to include all the essential information in concise, accurate, thorough, and logical sequence, using the clearest and simplest possible presentation. The keys to writing clearly may be summarized as:

- Use active voice
- Choose descriptive verbs
- Distinguish between "shall/will," "any/either," "and, or, and/or, and etc.." and "should/may"

³⁵ Department of Energy, August 2001. Performance-Based Contracting: Development of a Performance Work Statement, <http://www1.pr.doe.gov/acqguide/AGChapter37.htm>. (November 2005)

- Avoid ambiguity
- Avoid generalities, but do not over-specify
- Avoid agreements to agree
- Define all abbreviations and acronyms
- Use short, concise sentences

E. LESSONS LEARNED

Performance-Based Service Acquisition (PBSA) is always in the spot light and it seems that the lessons learned are a continuous flow of information. The Office of Federal Procurement Policy put out a report, “Performance-Based Service Acquisition: Contracting for the Future,”³⁶ that made six recommendations for modifications to the Federal Acquisition Regulation (FAR) to give agencies more flexibility in applying PBSA. It also looked at modifying the reporting requirements to ensure that PBSA is applied appropriately and improves the quality, currency and availability of the guidance for PBSA. The proposed changes may be helpful in improving the way PBSA is applied to specific requirements.

The Pentagon Renovation Program team, which is responsible for renovating 6.5 million square feet of office space at the Pentagon, used a PBSA approach for its acquisition of information technology (IT) telecommunications services. The article, “PBSA at the Pentagon,”³⁷ talks about the application of PBSA, lessons learned, and the payoff, which included cost savings and increased customer satisfaction.

Another article that provides some good lessons learned is “Performance-Based Service Contracting for Information Technology Requirements.”³⁸ This article points out some of the difficulties in preparation of the procurement because of the many specific points of information and defining meaningful performance. This article talks

³⁶ Interagency Task Force on Performance-Based Service Acquisition, July 2003. Performance-Based Service Acquisition – Contracting for the Future, Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy.

³⁷ John B. Jennings and Clyde P. Jackson, Jr., December 2002. PBSA at the Pentagon Contract Management Magazine/December 2002, Volume 42, Issue 12, pp. 26 –27.

³⁸ Henry Petersohn, April 2003. Performance-Based Service Contracting for Information Technology Requirements. Contract Management Magazine/April 2003, Volume 43/Issue 4.

specifically about the contract format and sections. This should be helpful in the preparation of the performance work statement.

F. STATEMENT OF OBJECTIVE DEVELOPMENT PROCESS

According to the Seven Steps to Performance-Based Service Acquisition,³⁹ an alternative to the performance work statement is to develop a statement of objectives (SOO). There is no set format for a SOO, but a common characteristic is that by their inherent nature, they tend to be short direct statement of needs with a minimum of the detail than normally found in a PWS or SOW. Typically, a SOO begins with an explanation of how the acquisition relates to an agency's program or mission needs and what problem(s) needs solving. The SOO generally should include statements describing:

1. Purpose – This is a short introduction on what the contract is supposed to achieve. This short concise message should relate to the agency's program or mission need and what problem needs solving.
2. Scope – The scope helps the competition get a grasp on the size and range of the services required. Another consideration is the budget authority, availability of funds for the acquisition. With this approach, the competing contractors will need some insight into the funding authority and size of their solution to be realistic and in a competitive range. This may be a list of constraints.
3. Period of Performance – This will also help the competition with an understanding of the scope of the effort. If you want them to propose on additional periods of performance at the same time, you need to make it clear that is your intent.
4. Place of Performance (if known, if required) – This provides the competition with another valuable piece of information, do not assume that it is understood. State it clearly so that everyone understands where the requirements are needed.
5. Background - Typically summarizes historical information that is necessary for the contractor to understand the current objectives. Gives the contractor an understanding of how and why the objectives are needed. This section is for informational purposes only and no directions to the contractor should be included in this section.
6. Program Objectives – Here is where the integrated solutions team has to decide what problem needs to be solved. This information constitutes the core of the statement of objectives. The approach should offer the

³⁹ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

contractor the maximum flexibility to propose an innovative approach or solution to the government. This is the information that the contractor is going to use to respond back with a performance work statement that becomes part of the contract. What needs to be obvious is that these objectives are mission-related, measurable objectives. These objectives need to be stated in a manner so that the contractor and government share the goals or the objectives. This will increase the likelihood of success.

7. Constraints – These are the necessary and needed limits the government must put on the responses. These restraints may range from where the work must take place to regulated by policy requirements that must be adhered to in order for the solution to be acceptable or compatible with government systems or policies. This is an important element of the statement of objectives because it provides the limits on the flexibility of the offer received.

The integrated solutions team should examine and delete anything that is not essential in the entire statement of object before it is released. The Government-prepared SOO is usually incorporated into the RFP either as an attachment or as a part of Section L. At contract award, the *contractor-proposed* Statement of Work can be incorporated by reference or integrated directly into Section C.

This alternative approach to development of the PWS, to develop a Statement of Objectives is further explained in an Acquisition Direction Advisory “An Innovative Approach to Performance-Based Acquisition: Using the SOO,”⁴⁰ which provides some lessons learned and an in-depth view of the use of statement of objectives. This article emphasizes the need to have a cross-functional team to plan and manage a procurement. It points out the typical acquisition approaches fail to put the task where the knowledge is and most agencies have already developed the essence of the statement of objectives during the budget process. Statement of objectives offers the contractor maximum flexibility to propose and innovative approach or solution to the government. It also places significant burden on the offerors to do more to respond effectively and competitively to the government solicitation. It is to the agency’s advantage to have offerors who really understand the objectives and use that information to craft superior solutions. The agency can differentiate contractors on the basis of the old evaluation

⁴⁰ Chip Mather and Ann Cotello, May 2001. An Innovative Approach to Performance-Based Acquisition: Using SOO, Acquisition Directions, Advisory, May 2001, Acquisition Solutions, Inc.

criteria “Understanding the Requirement.” Tapping into the private sectors innovative approaches through the use of statement of objectives process will help meet the government wide performance-based goals.

Over time as existing contracts approach their expiration or approach their Option period, transitioning over to this SOO approach in many instances has the potential to offer agencies the greatest return on cost-effectiveness. This return on cost-effectiveness should accrue particularly to the large number of technical and engineering support acquisitions that can typically be characterized as having a “diversity of advanced technical complexity and in which there may be no problem yet defined, or there are inherent uncertainties and/or lack of specificity associated with the ability to define desired outcomes, etc.” Like an acquisition for advanced R&D, it is practically impossible to dictate performance requirements for outcomes (solutions) as yet unknown or poorly understood until there is sufficient and adequate work product, supporting data and knowledge base available in the subject area to justify full implementation of a Performance Work Statement. However, application of the Statement of Objectives methodology can allow the integrated solutions team a breadth of options ranging from application of performance principles wherever they can be appropriately applied to potential full implementation of performance-based contracting when that is more appropriate. In this process you may consider a fairly simple solicitation that is the SOO. An offeror’s response to the statement of objectives is a contractor crafted proposed performance work statement (solution) with related, offeror-proposed performance metrics (Quality Assurance Plan or Quality Assurance Surveillance Plan).

G. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

Begin writing the Performance Work Statement.

There are primarily two means of development of a solution for Performance-Based Service Acquisitions: (1) by using a Performance Work Statement, or (2) by employing a relatively new and emerging methodology built around a Statement of Objectives. The teams shall employ both methodologies and select whichever one is most suitable to achieve the objectives most effectively, based upon characteristics, needs, and requirements unique to the given requirement. The PWS process is what is

traditionally considered in most performance-based service contracting activities and in the FAR. PWS process provides a good choice for those instances when you have a well-established or historical knowledge base and a reasonably comprehensive understanding of the contemplated technical service. It is also a good choice for contracting needs for a follow-on or related new project, and/or has properly conducted the prerequisite outcomes analysis and performance requirements analysis. By whatever means the outcomes and requirements analyses are conducted, the integrated solutions team's ultimate objective is to take the information so developed and employ it to create:

- A description of the required services in terms of outcomes or results
- Measurable performance standards for the output
- Defined acceptable quality levels (AQLs) or allowable error rate

It is important to remember to focus on identifying the essential inputs, processes, and outputs during the requirements analysis, not “how” things are done...that’s exactly the type of information that is NOT to be included in a PWS.

The AQL establishes the allowable error rate or variation from the standard. Failure to perform within the AQL could result in a contract price reduction or other action. To foster reliance on standard commercial practices, acquisition teams have the option of encouraging contractors themselves to propose standards of service, along with appropriate price adjustments or other actions. [All these points—performance standards, quality levels, and pricing are negotiable.]

The Performance Requirements Analysis Matrix, which is a tool used to tabulate the desired outcomes, performance objectives, performance standards, and AQLs developed through the previously explained analyses, should be used to generate a Performance Requirements Summary (PRS). The PRS becomes the baseline for the Performance Work Statement. PRSs should be concise and should capture the relevant and essential elements of the requirement. In the actual PWS, the acquisition team will elaborate on and describe the requirements in greater detail. Performance objectives and performance standards are sometimes combined in one tasking sentence. Similarly, performance standards and AQLs can also be combined. There is no preferred format.

The primary objective is to define the requirements in a manner that allows an offeror to fully comprehend what will be necessary to accomplish the requirement.

The integrated solutions [acquisitions] team employs the PRS data, elaborates on its contents, and organizes the information into a SOW-like format (introduction, background information, scope, applicable documents, performance requirements, [any] special requirements, and deliverables, etc.), to develop the Performance Work Statement and the Statement of Objectives using precise terms and clear concise wording. The FAR requires that a SOO and PWS must at a minimum be structured to:

- Describe requirements in terms of outcomes (results) rather than processes.
- Use measurable, objective performance standards and quality assurance surveillance plans (QASPs).
- Provide mechanisms for reductions of fees or price.
- Include performance incentives where appropriate.

Since the nature of performance-based acquisition is (or should be) tied to mission-unique or program-unique needs, it is important to understand that solutions developed by other agencies may not provide good or relevant models from which to work. Finally, the acquisition teams must remain mindful of the following DOD guidance:

Do not specify the requirements so tightly that you run the risk of getting the same solution from each offeror.

A progress report, to include the market research and Performance Requirements Summary (PRS) are due next week.

H. READING ASSIGNMENTS FOR SESSION 6

Pages 13-14 and Appendix I of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 26-30 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Garrett, Gregory A., April 2002. Performance-Based Contracting Incentives: Myths, Best Practices, and Innovation. Contract Management Magazine/April 2002, Volume 42/Issue 4

Owens, James G., December 2003. The Incentive-Term Arrangement: A New Strategy for Creating Value. Contract Management Magazine/December 2003, Volume 43, Issue 12, Pages 40-41

Edwards, Vernon J., February 2002. The Award-Term Incentive: A Status Report, Contract Management Magazine, February 2002, Volume 42, Issue 2. Pages 22 –27

Gill, Jim, February 2002. Incentive Contracting, Assessing the Risks, Contract Management Magazine, February 2002, Volume 42, Issue 2, Pages 42-44

Dickinson, Tom, February 2001. A Case for Multiple Incentives, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 10-13

Brands, Margaret, February 2001. Another Look at Award Fee Contracts, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 18-25

Edwards, Vernon J., February 2001. Award-Term: The Newest Incentive, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 44-48

Scan only: The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense Acquisitions, General Policy Guidance, <http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/library/DODincentivesguide0201.pdf> (November 2005)

THIS PAGE INTENTIONALLY LEFT BLANK

VIII. SESSION 6: PERFORMANCE INCENTIVES AND PENALTIES

A. LEARNING OBJECTIVES

1. Learn how to apply and characterize performance incentives and penalties.

B. INTRODUCTION

In this session will be talking about how to use performance-based contracting to motivate the contractor to provide the best performance for the least price. This session talks about the role positive and negative incentives play in making performance-based service acquisition successful. Incentives vary from additional fee to possibly extending a contract term for highly successful performance.

C. READING MATERIAL FOR SESSION 4

1. Instructor

Garrett, Gregory A., April 2002. Performance-Based Contracting Incentives: Myths, Best Practices, and Innovation. Contract Management Magazine/April 2002, Volume 42, Issue 4, Pages 14-19

Owens, James G., December 2003. The Incentive-Term Arrangement: A New Strategy for Creating Value. Contract Management Magazine/December 2003, Volume 43, Issue 12, Pages 40-41

Edwards, Vernon J., February 2002. The Award-Term Incentive: A Status Report, Contract Management Magazine, February 2002, Volume 42, Issue 2. Pages 22 –27

Gill, Jim, February 2002. Incentive Contracting, Assessing the Risks, Contract Management Magazine, February 2002, Volume 42, Issue 2, Pages 42-44

Dickinson, Tom, February 2001. A Case for Multiple Incentives, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 10-13

Brands, Margaret, February 2001. Another Look at Award Fee Contracts, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 18-25

Edwards, Vernon J., February 2001. Award-Term: The Newest Incentive, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 44-48

The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense Acquisitions, General Policy Guidance, <http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/library/DODincentivesguide0201.pdf> (November 2005)

2. Students

Pages 13-14 and Appendix I of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 26-30 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Garrett, Gregory A., April 2002. Performance-Based Contracting Incentives: Myths, Best Practices, and Innovation. Contract Management Magazine/April 2002, Volume 42, Issue 4, Pages 14-19

Owens, James G., December 2003. The Incentive-Term Arrangement: A New Strategy for Creating Value. Contract Management Magazine/December 2003, Volume 43, Issue 12, Pages 40-41

Edwards, Vernon J., February 2002. The Award-Term Incentive: A Status Report, Contract Management Magazine, February 2002, Volume 42, Issue 2. Pages 22 –27

Gill, Jim, February 2002. Incentive Contracting, Assessing the Risks, Contract Management Magazine, February 2002, Volume 42, Issue 2, Pages 42-44

Dickinson, Tom, February 2001. A Case for Multiple Incentives, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 10-13

Brands, Margaret, February 2001. Another Look at Award Fee Contracts, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 18-25

Edwards, Vernon J., February 2001. Award-Term: The Newest Incentive, Contract Management Magazine, February 2001, Volume 41, Issue 2, Pages 44-48

Scan only: The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense Acquisitions, General Policy Guidance, <http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/library/DODincentivesguide0201.pdf> (November 2005)

D. PERFORMANCE INCENTIVES AND PENALTIES

J.S. Gansler, The Under Secretary of Defense, wrote in January 2001⁴¹ “that incentives exist in every business arrangement. The effective application of incentives is the key to building successful business arrangements that jointly maximize value to all parties. It is essential that the Department of Defense adopt incentive strategies to successfully attract, motivate and reward traditional and non-traditional contractors, thus ensuring successful performance.”

⁴¹ The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense Acquisitions, General Policy Guidance.

Performance incentives are an essential element of PBSA [FAR 37.602-1(b)(3)] (or any contract). An inherent attribute of any contract is to motivate successful performance and insure that contractors that fail to perform satisfactorily do not get rewarded. Contracting officers are increasingly incorporating specified incentives designed to encourage superior performance on the part of the contractors. Additionally, in recent years the Government has collected, maintained, and used information on past performance for the purpose of evaluating contractor performance for award of future work. Contractors that have developed an exceptional track record achieve a greater competitive edge in future source selections and thus a stronger assurance of future work. Also, contract clauses such as liquidated damages provide a negative incentive if the contractor causes harm or damage to the Government resulting from a failure to perform, the contractor is obligated to compensate the Government in accordance with the contract clause. Basically, contracting practices have demonstrated that various methodologies exist that are useful for motivating high-quality performance. This section examines the use of incentives and penalties.

Gregory A. Garrett writes in his article “Performance-Based Contracting Incentives: Myths, Best Practices, and Innovations,”⁴² that the sound use of performance-based incentives is key to the success of the performance-based contracting approach. The article begins by discussing seven myths, or misperceptions, that often prevent organizations from using incentives appropriately. It then presents best practices and specific techniques that organizations have found helpful, or even critical, in the effective use of performance incentives. Finally, the article discusses some positive ramifications of the increased use of performance-based contracting in general and performance incentives in particular. Garrett concludes that, when used properly, in situations where the government actually requires superior performance toward clearly defined objectives, positive and negative incentives can go a long way in helping agencies meet their needs.

Incentives can be monetary, non-monetary, positive, or negative. They can be based on cost, on schedule, or on quality of performance. Regardless of the final

⁴² Gregory A. Garrett, April 2002. Performance-Based Contracting Incentives: Myths, Best Practices, and Innovation. Contract Management Magazine/April 2002, Volume 42, Issue 4, pp. 14-19.

composition and structure of the incentives, the goal is to encourage and motivate the best-quality performance. The following characterizes some of the specific types of incentives and PBSA incentive provisions that are available to be employed in acquisitions.

E. AWARD-FEE CONTRACT ARRANGEMENTS

Using evaluation factors established in an Award-Fee plan. Award-Fee contracts are a tool for subjectively assessing contractor performance for a given evaluation period. They allow contractors to earn a portion (if not all) of an award-fee monetary pool established at the beginning of the evaluation period. The agency unilaterally determines the amount of earned fee. In the context of PBSA, the award-fee evaluation will be based on a subjective assessment of how well the contractor meets or exceeds the applicable performance standards.

Margaret Brandis writes in an article “Another Look at Award Fee Contracting,”⁴³ that does a good job of explaining award fee contracts for both fixed price and cost reimbursable contract types. The award fee contract consists of the following components:

- An estimated cost
- A base fee, paid on a regular basis and not tied to any evaluation of services
- An award fee, which is the difference between the maximum fee and the base fee
- A payment plan indicating how often contractor performance will be evaluated
- Award criteria that describe the general areas in which the contractor will be evaluated.

The article goes on to say that there is a very real cost associated with award fee contracting. The regular performance evaluation aspects are an ongoing resource drain. NASA’s (the largest user of award fee contracts) cost to the government averaged \$38,700 per evaluation period on award fee contracts. Although there is no mention of contractor cost, we can assume their cost would be the same or more for the gathering

⁴³ Margaret Brands, February 2001. Another Look at Award Fee Contracts, Contract Management Magazine, February 2001, Volume 41, Issue 2, pp. 18-25.

and presentation of performance data. In conclusion, Brandis states that there are benefits of award fee contracts to the government in having the contractor focus on areas that are most important to the government, it adds flexibility to the contract and allows the government to change their priorities and award fees are generally higher fees than seen on other contracts therefore motivating the contractor to perform. However, the requirements for past performance information make the advantages seem redundant. The extra administrative burden imposed on both the government and the contractor makes an award fee contract much less desirable contract in this era of procurement personnel downsizing.

Incentive contracting is a focused approach that awards bonus dollars for exemplary performance on a particular aspect important to the buyer, as stated by Tom Dickinson in his article “A Case for Multiple Incentives.”⁴⁴ When multiple incentives are planned, several issues should be addressed. The buyer needs to delineate the deferent areas where an incentive is desired. Then each area needs individual assessment, which includes a determination of what is to be measured, the testing instrument, consistency of evaluations, and the monetary award associated with the evaluation scores. The main point is when a contractor addresses incentives, the contractor’s priorities are those incentive areas that will be most beneficial for the company and not necessarily all of the tasks in the contract.

F. AWARD-TERM CONTRACT ARRANGEMENTS

Award-Term arrangements are very similar to award-fee contracts; however, instead of money as compensation for quality performance, the contractor is awarded additional periods of performance. Or, if performance is habitually below standard, the period of performance can be shortened. Award-Term arrangements are most suitable when establishment of a long-term relationship is valuable both to the Government and to the potential contractor. They differ from options in that Award-Terms are based on a formal evaluation process and do not entail the regulatory procedures associated with priced options. Award-Term arrangements are relatively new.

⁴⁴ Tom Dickinson, February 2001. A Case for Multiple Incentives, Contract Management Magazine, February 2001, Volume 41, Issue 2, pp. 10-13.

Vernon J. Edwards writes in an article, “Award-Term: The Newest Incentive,”⁴⁵ that though award-term is not yet described in the FAR, it is modeled after the award fee incentives described in FAR 16.405-1. Award-term incentive contracts have been in use since 1997 and it rewards a contractor for excellent performance by extending the contract without competition. The government team monitors the contractor performance on the basis of contractually stipulated criteria and reports their findings to government term determining official. A true award-term incentive rewards the contractor with legal entitlement to a contract extension, not an additional option. An option is a unilateral right of the government; a contractor is not entitled to the exercise of an option. But under a true award-term incentive, if the contractor’s performance meets the award-term criteria stipulated in the contract, and if any stipulated conditions such as continuing need and availability of funds are met, then the government must either extend the contract or terminate it for convenience or default. Some contracts have been awarded and labeled award-term, but should have been called award option or incentive option because the contractor’s reward is not an actual extension but merely a government option to extend. The Edwards article discusses the advantages and disadvantages of long term relationships that may result in this type of incentive contracts. Vernon Edwards concludes that it is too early to tell whether the award-term is a good idea.

James G. Owens’ article “The Incentive-Term Arrangement: A new Strategy for Creating Value,”⁴⁶ talks about what you get when you cross an award-term arrangement with an incentive-fee arrangement. As we continue to find new ways to motivate superior contractor performance, incentive-term arrangements may be positive or negative; they may be monetary or non-monetary (e.g., past-performance evaluation); they may be quantitative and objective; or qualitative and subjective. By combining features of incentive-fee and award-term arrangements creates a new hybrid call

⁴⁵ Vernon J. Edwards, February 2001. Award-Term: The Newest Incentive, Contract Management Magazine, February 2001, Volume 42, Issue 2, pp. 44-48.

⁴⁶ James G. Owens, December 2003. The Incentive-Term Arrangement: A New Strategy for Creating Value. Contract Management Magazine/December 2003, Volume 43, Issue 12, pp. 40-41.

incentive-term arrangement. While evolutionary in nature, the incentive-term adds still another variation and tool to motivate and award performance levels of the highest quality.

Contract Management magazine did a follow-up report “The Award-Term Incentive: A Status Report,”⁴⁷ in February 2002 where they examined the use of award-term contracts based on a survey of what has been learned about federal agencies that have developed plans to use award-term incentives in contracts. The award-term incentive elements were similar to those used in award-fee contracts:

- Award-term clause,
- Award-term plan,
- Award-term board, and
- Term-determining official.

Contracts with award-term incentives typically include a base period of performance and a number of option periods during which the government observes and evaluates the contractor’s performance. During this time the contractor can earn credits towards a contract extension. Such an extension is the “award-terms.” The award-term incentive gives rise to many questions, such as:

- How is the award-term incentive any better than options to extend the term of the contract?
- Is the award-term incentive consistent with the Competition in Contracting Act?
- Does the Federal Acquisition Regulation (FAR) permit the use of award-term incentive?
- What terms and conditions should an agency include in the contract that includes an award-term incentive?
- How does one set prices for distant award-term periods and what are the risks of long-term periods and what are the risks of long-term pricing?

The article concludes that award-term incentive is an unproven idea, too new for anyone to make any claims about its effectiveness or success.

⁴⁷ Vernon J. Edwards, February 2002. The Award-Term Incentive: A Status Report, Contract Management Magazine, February 2002, Volume 42, Issue 2, pp. 22 –27.

Past Performance: Past performance information can affect decisions to exercise options or to make future contract awards. Thus, introduction of positive past performance assessments for a contractor into the Contractor Performance Assessment Reporting System (CPARS) is a quick way for motivating improved performance or to reinforce exceptional performance. Keep in mind that the integrity of a past performance evaluation is essential.

Cost-Based Incentives: Performance incentives are designed to relate profit or fee to results achieved by the contractor in relation to identified cost-based targets or performance metrics. Regardless of the performance metric, performance incentives must be quantified and within a reasonable range (high/target/low).

Jim Gill's article "Incentive Contracting Assessing the Risks,"⁴⁸ addresses the risk when cost savings and mission achievement conflict. The theory of incentive contracting is that the contractor is motivated by the desire to maximize profit, which drives them to meet the performance criteria the government has established in the contract. When criteria is for reduced cost to the government the element of risk enters the equation in the area of cost management and technical trade-offs, especially where government program managers and contractors have different thresholds of risk. Some contractors will push the envelope of risk, knowing that the government will force the program back to a less risk-rich environment. This article provides another perspective on incentive contracting, be careful what you ask for, make sure it meets the real requirements of the government.

For further guidance on incentive strategies, see ["Guide to Incentive Strategies for Defense Acquisitions,"](#)⁴⁹ Office of the Undersecretary of Defense (Acquisition and Technology), January 2001.

⁴⁸ Jim Gill, February 2002. Incentive Contracting, Assessing the Risks, Contract Management Magazine, February 2002, Volume 42, Issue 2, pp. 42-44.

⁴⁹ The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense Acquisitions, General Policy Guidance, <http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/library/DODincentivesguide0201.pdf>. (November 2005)

G. PENALTIES FOR NON-PERFORMANCE

Performance-based contracts should specify procedures, remedies, or penalties for reductions in price, fee re-determination, or reduction in the period of performance when services are not performed or fail to meet contract quality (performance) requirements. DOD guidelines instruct: “agencies must give the contractor an opportunity to correct nonconforming services at no increase in contract price. While reductions in price may be appropriate for a particular circumstance, it is also recognized that it may be more feasible to require the contractor to re-perform the service at no additional cost. Acceptance procedures should provide the appropriate terms to address less-than-satisfactory performance. In cases where commercial item acquisition procedures are used, agencies should rely on contractors’ existing quality assurance systems as a substitute for acceptance procedures. The bottom line is that agencies should not pay for services that do not conform, do not meet performance standards, or have not been properly rendered.”⁵⁰

H. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

Continue to develop the performance work statement and start to consider the incentives that will be applied to get the best performance from the contractor. Consider award fee and award term, but keep in mind the administrative requirements of these incentive type contracts. Consider other incentive methods.

I. READING ASSIGNMENT FOR SESSION 7

Pages 15-17 and Appendix B and C of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 23-26 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Diernisse, Lisa, June 2003. Performance Metrics for Non-Mathematicians. Contract Management Magazine/June 2003, Volume 43, Issue 6, Pages 44-53

⁵⁰ Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf. (November 2005)

Adam, Peter S., November 2003. Performance-Based Service Metrics in IT.
Contract Management Magazine, November 2003, Volume 43, Issue 11, Pages 18-26

GAO, June 2003. Best Practices: Improved Knowledge of DOD Service
Contracts Could Reveal Significant Savings, GAO-03-661

IX. SESSION 7: METHODS AND METRICS TO ASSESS/MANAGE CONTRACTOR PERFORMANCE

A. LEARNING OBJECTIVES

1. Learn the difference between “Quality Assurance and “Performance Assessment” and how to develop a Performance Assessment Plan.
2. Learn about assessment methodologies.

B. INTRODUCTION

In this chapter we discuss development of an approach for measuring and managing contractor performance. This is a highly complex process that requires consideration of many factors: performance standards and measurement techniques, performance management approach, incentives, etc. This component of PBSA is equally important to development of the PWS or SOO, because this element establishes the strategy for management of the contract to achieve the desired performance objectives.

C. READING MATERIAL FOR SESSION 7

1. Instructor

Diernisse, Lisa, June 2003. Performance Metrics for Non-Mathematicians. Contract Management Magazine/June 2003, Volume 43, Issue 6, Pages 44-53

Adam, Peter S., November 2003. Performance-Based Service Metrics in IT. Contract Management Magazine, November 2003, Volume 43, Issue 11, Pages 18-26

GAO, June 2003. Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661

2. Students

Pages 15-17 and Appendix B and C of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 23-26 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Diernisse, Lisa, June 2003. Performance Metrics for Non-Mathematicians. Contract Management Magazine/June 2003, Volume 43/Issue 6, Pages 44-53

Adam, Peter S., November 2003. Performance-Based Service Metrics in IT. Contract Management Magazine, November 2003, Volume 43, Issue 11, Pages 18-26

GAO, June 2003. Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661

D. METHODS AND METRICS TO ASSESS/MANAGE CONTRACTOR PERFORMANCE

Rather than inventing metrics or quality or performance standards, the most current (2004) guidance from OFPP⁵¹ instructs an integrated solutions team to largely rely on established quality standards such as the American Society for Testing Materials (ASTM), Military Specifications or Military Standards (MIL SPEC or MIL STD), or any relevant commercial standards such as the International Standards Organization (ISO) 9000 series or “ISO 9000: 2000” series, which is a set of new quality management standards that apply to all varieties of organizations in all kinds of discipline areas. Such standards can be incorporated into the selection and evaluation criteria. The important issue is to recall those determinants that will constitute (define) success for the project and to construct the overall performance measurement and management approach on those success determinants. An inherent aspect of being able to apply the standards or other determinants is the ability to have periodic in-process inspections or surveillance of on-going service delivery. This is needed to ensure that the Government receives the quality of services required under the contract, and only pays for the acceptable level of services received. A Quality Assurance Plan (QAP) or Quality Assurance Surveillance Plan (QASP) is intended to measure task/project-specific contractor performance against standards (and/or Contractor-proposed performance metrics) in the PWS or associated with contractor responses to a SOO. The PWS and QAP or QASP are interdependent related documents and must be coordinated. Accordingly, preparation of both documents concurrently is both effective and efficient.

Lisa Diernisse writes in her article “Performance Metrics for Non-Mathematicians,”⁵² that metrics can be incorporated into a contract arrangement, typically a performance-based service contract, to measure and evaluate contractor performance. Though the primary purpose of the article talked about metrics that may be

⁵¹ An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.), p. 23 <http://www.acqnet.gov>. (November 2005)

⁵² Lisa Diernisse, June 2003. Performance Metrics for Non-Mathematicians. Contract Management Magazine/June 2003, Volume 43, Issue 6, pp. 44-53.

used by acquisition personnel to measure and evaluate their own performance, she makes a lot of good points and gives some good explanations and interpretations of metrics in general.

According to her article, metric means an attribute that can be measured, not the measurement itself, although the term “metrics” will mean a system for regularly collecting, reporting and interpreting quantifiable performance data to aid in management decision-making and/or the data produced by such as system for most of our applications. Using metrics can be daunting to people with weak backgrounds in mathematics, statistics, and quantitative analysis, Ms. Diernisse provides a simpler, more flexible approach that can be tailored to the needs and resources of the acquisition team, and still yield useful information. She provides four steps to assist in setting up metrics:

- Decide attributes, link them to goals/objectives (outcomes)
- Solicit organizational (team) buy-in
- Develop data collection tools
- Report metrics data

The article also provided ten tips for effective metrics that may be very helpful in developing a good metrics for performance-based service acquisition.

A similar article, written by Peter S. Adam, “Performance-Based Service Metrics in IT,”⁵³ expressed that choosing metrics is more of an art than a science especially for performance-based service acquisitions. According to Clyde Jackson, Logistics Management Agency (LMA), “it is critical for performance standards to be linked directly to the desired contract outcome.” In order for efforts and outcomes to link up correctly, performance standards must be “measurable, achievable, relevant, and controllable.” Adam goes on to talk about the spectrum of contract types from fixed-price to cost-reimbursement and the dynamics of choosing appropriate metrics to assure proper performance. He goes on to explain how metrics figures in to all aspects of the acquisition process. The examples and his table “Metric Selection Summary” will be helpful in planning metrics for any performance-based contract.

⁵³ Peter S. Adam, November 2003. Performance-Based Service Metrics in IT. Contract Management Magazine, November 2003, Volume 43, Issue 11, pp. 18-26.

E. QUALITY ASSURANCE VS. PERFORMANCE ASSESSMENT

Traditionally, performance-based contracting methods have used the term “quality assurance” to refer to the functions performed by the Government to determine whether a contractor has fulfilled the contract obligations pertaining to quality and quantity. However, the DOD position is that the term “quality assurance,” does not adequately characterize the true essence of performance-based service acquisition, since agencies do not “assure quality” – rather, they evaluate contractor performance. In a performance-based environment, it is the contractor that is contractually responsible for quality assurance, further motivated through various kinds of incentives such as award-fee and past performance assessments. Agencies remain responsible for ensuring that they get what they are paying for – by periodically evaluating contractor performance through the appropriate assessment methods. In recognition of this shift in emphasis DoD has shown a preference for the term, “performance assessment” instead of “quality assurance” in most instances. However, current (’04 and ’05) uniform practice recommended in OFPP guidelines to Government agencies reflects this above nuance of interpretation slightly differently by recommending assessment of performance against standards through the QAP/QASP mechanism. The discussions that follow will attempt some further clarification of the distinctions involving quality control, quality assurance, and performance assessment activities in managing contractor performance.

A quality control plan is a plan developed by the contractor with project/Task-specific approaches and performance metrics for its internal use to ensure that it performs and provides deliverables/services to the Government that are consistent with established high commercial quality standards and meet the contract requirements. Often the quality control plan becomes part of the contractor’s original proposal, and in many cases it may be incorporated into the resultant contract.

Simply stated, a contractor’s Quality Assurance Plan is his formally established and enforced overall internal organizational policy and documented uniform procedures or processes for assuring the extent and accuracy of documentation, data, references, background materials, technical protocols, and any [technical] work product associated with finished deliverable products. For example, many organizations may follow the

standards and be independently certified as meeting the requirements of “ISO 9000: 2000 [quality] Standards” of the International Standards Organization and/or similar recognized standards organizations, as mentioned above.

A Performance Assessment Plan should be developed in conjunction with the preparation of the performance work statement (PWS), regardless of whether acquisition team develops the PWS directly or a contractor develops the PWS from a SOO. For every performance objective identified in the Performance Requirements Analysis and subsequently included in the PWS, one or more methods for evaluating performance should also be identified. Also make sure that the methods allow for adequate assessment of the performance standard itself. The Guidebook for PBSA in Department of Defense⁵⁴ suggest Performance Assessment Plan outline:

- Purpose
- Roles and Responsibilities
- Procedures
- Methods of assessment
- Successful performance and remedies
- Certification of services
- Sample of contract discrepancy report
- Customer complaint procedures and training instructions
- Acronyms and other abbreviations

The performance assessment plan should also outline any acceptance process and should state how acceptance of services will occur.

In general, performance assessment plans should indicate how performance information would be captured and documented in such a manner that it complies with FAR Part 42 requirements for later access as a source of Past Performance Information (PPI).

⁵⁴ Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf. (November 2005)

Effective use of the performance assessment plan, in conjunction with a contractor's quality control plan, will allow the Government to evaluate the contractor's success in meeting the contract requirements.

Recommended assessment methods identified in the performance assessment plan, together with the contractor's quality control plan and performance metrics, will also aid in evaluating the success with which the contractor delivers the level of performance committed to in the contract.

One of the better examples for the Quality Assurance Surveillance Plan is from the United States Patent and Trademark Office (USPTO).⁵⁵ This sample gives a good explanation for each area that is required to be addressed:

1. Purpose

This Quality Assurance Surveillance Plan (QASP) is a Government developed and applied document used to make sure that systematic quality assurance methods are used in the administration of the Performance Based Service Contract (PBSC) standards included in this contract and in subsequent task orders issued. The intent is to ensure that the Contractor performs in accordance with performance metrics set forth in the contract documents, that the Government receives the quality of services called for in the contract and that the Government only pays for the acceptable level of services received.

2. Authority

Authority for issuance of this QASP is provided under Contract Section E – Inspection and Acceptance, which provides for inspections and acceptance of the articles, services, and documentation called for in task orders to be accomplished by the Contracting Officer or his duly authorized representative.

3. Scope

To fully understand the roles and the responsibilities of the parties, it is important to first define the distinction in terminology between the Quality Control Plan and the Quality Assurance Surveillance Plan. The Contractor, and not the Government, is

⁵⁵ United States Patent and Trademark Office, author and date unknown.
http://www.arnet.gov/Library/OFPP/BestPractices/pbse/library/USPTOattF_DRAFTQASP.doc (November 2005)

responsible for management and quality control actions necessary to meet the quality standards set forth by the contract and follow-on task orders. The Contractor develops and submits his Quality Control Plan (QCP) for Government approval in compliance with his contract deliverables. Once accepted, the Contractor then uses the QCP to guide and to rigorously document the implementation of the required management and quality control actions to achieve the specified results. The QASP on the other hand, is put in place to provide Government surveillance oversight of the Contractor's quality control efforts to assure that they are timely, effective and are delivering the results specified in the contract or task order. The QASP is not a part of the contract nor is it intended to duplicate the Contractor's QCP. The Government has provided the Contractor an informational copy of the QASP as an Attachment to the solicitation to support the Contractor's efforts in developing a QCP and for providing the contractor an opportunity to comment and propose innovative solutions for the Government's QASP.

4. Government Resources

The following definitions for Government resources are applicable to this plan.

a. Contracting Officer

A person duly appointed with the authority to enter into, administer, or terminate contracts and make related determinations and findings on behalf of the Government.

b. Project Officer

An individual designated in writing by the Contracting Officer to act as his authorized representative to assist in administering a contract. The source and authority for a Project Officer is the Contracting Officer. Project Officer limitations are contained in the written letter of designation.

c. Technical Monitor

An individual appointed by the Project Officer to act as his authorized representative for the technical administration of specific task order(s) issued under the contract. The duties and limitations of the Technical Monitor are contained in a written letter of designation and/or in the body of the issued task order.

5. Responsibilities

The Government resources shall have responsibilities for the implementation of this QASP as follows:

a. Contracting Officer

The Contracting Officer ensures performance of all necessary actions for effective contracting, ensures compliance with the terms of the contract and safeguards the interests of the United States in the contractual relationship. It is the Contracting Officer that assures the Contractor receives impartial, fair, and equitable treatment under the contract. The Contracting Officer is ultimately responsible for the final determination of the adequacy of the Contractor's performance.

b. Project Officer

The Project Officer is responsible for technical administration of the project and assures proper Government surveillance of the Contractor's performance. The Project Officer is not empowered to make any contractual commitments or to authorize any contractual changes on the Government's behalf. Any changes that the Contractor deems may affect contract, price, terms, or conditions shall be referred to the Contracting Officer for action.

c. Technical Monitor

The Technical Monitor provides detailed technical oversight of the Contractor's performance and reports his or her findings to the Project Officer in a timely, complete and impartial fashion to support the Project Officer's technical administration activities. While the Technical Monitor may serve as a direct conduit to provide Government guidance and feedback to the Contractor on technical matters, he or she is not empowered to make any contractual commitments or to authorize any contractual changes on the Government's behalf. Any changes that the Contractor deems may affect contract, price, terms, or conditions shall be referred to the Contracting Officer for action.

6. Methods of QA Surveillance

The below listed methods of surveillance shall be used in the administration of this QASP. In addition to specific instructions that may be mentioned, the appropriate

and standardized form that is to be used for documentation of QA surveillance is the Surveillance Activity Checklist, included as Attachment A.

a. Customer Feedback

Customer feedback may be obtained either from the results of formal customer satisfaction surveys or from random customer complaints. Customer complaints, to be considered valid, must set forth clearly and in writing the detailed nature of the complaint, must be signed and must be forwarded to the Project Officer.

The Project Officer shall maintain a summary log of all formally received customer complaints as well as a copy of each complaint in a documentation file. The Project Officer shall also keep the tabulated results of all customer satisfaction surveys on file and shall enter the summary results into the Surveillance Activity Checklist.

b. 100% Inspection

This level of inspection shall be accomplished by monitoring and documentation. Each month, the Project Officer, or if so designated the appropriate Technical Monitor, shall review the generated documentation and enter summary results into the Surveillance Activity Checklist.

Periodic Inspection - Periodic inspections shall be conducted if and when specified in individual task orders. For the potential tasks that have been identified so far and included in this QASP, the appropriate Technical Monitor typically performs the periodic inspection on a monthly basis.

c. Random Monitoring

Random monitoring shall be conducted if and when specified in individual task orders. For the potential tasks that have been identified so far and included in this QASP, the random monitoring shall be performed by the Project Officer or by the appropriate designated Technical Monitor.

7. Identified QA Surveillance Tasks

The following PBSC items are identified within the OHR contract Statement of Work to be applicable on a wide basis and are to be monitored under this QASP.

See the Performance Requirements Summary and Section B.9.1

For Each Contract Task

Performance Requirement – As agreed upon between the Contractor and USPTO (Government)

Performance Standard - As agreed upon between the Contractor and USPTO (Government)

Method of Measurement – As agreed upon between the Contractor and USPTO (Government)

Performance Metrics – As agreed upon between the Contractor and USPTO (Government)

Performance Incentives – As agreed upon between the Contractor and USPTO (Government)

8. Documentation

The Project Officer will, in addition to providing documentation to the Contracting Officer, maintain a complete Quality Assurance file. The file will contain copies of all reports, evaluations, recommendations, and any actions related to the Government's performance of the quality assurance function, including the originals of all Surveillance Activity Checklists. All such records will be retained for the life of this contract. The Project Officer shall forward these records to the Contracting Officer at termination or completion of the contract.

9. Attachments

Attachment A – Surveillance Activity Checklist

Performance Requirement	Performance Standard	Method of Measurement	Performance Metrics	Method of Surveillance	Date Accomplished	Compliance (Exceeded, Met or Partially Met)

Table 2. Part of sample from United States Patent and Trade Office:
http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/library/USPTOattF_DRAFTQASP.doc (November 2005)

F. ASSESSMENT METHODOLOGIES

A variety of methods can be employed to evaluate a contractor's performance as seen in the above example. The following are some other representative examples of commonly utilized methods.

1. Random Sampling

Random sampling is a statistically based method that assumes receipt of acceptable performance if a given percentage or number of scheduled assessments is found to be acceptable. The results of these assessments help determine the Government's next course of action vis-à-vis the contractor, if necessary, and whether adjustments in this method of assessment are necessary. If performance is considered marginal or unsatisfactory, the evaluators should document the discrepancy or finding and begin corrective action. If performance is satisfactory or exceptional, they should consider adjusting the sample size or sampling frequency. Random sampling is the most appropriate method for frequently recurring tasks. It works best when the number of instances is very large and a statistically valid sample can be obtained.

2. Periodic Sampling

Periodic sampling is similar to random sampling, but it is planned at specific intervals or dates. It may be appropriate for tasks that occur infrequently. Selecting this tool to determine a contractor's compliance with contract requirements can be quite effective, and it allows for assessing confidence in the contractor without consuming a significant amount of time.

3. Trend Analysis

Trend analysis should be used regularly and continually to assess the contractor's ongoing performance over time. It is a good idea to build a database from data that have been gathered through performance assessment. Additionally, contractor-managed metrics may provide added information needed for the analysis. This database should be created and maintained by Government personnel.

4. Third-Party Audits

The term "third-party audits" refers to contractor evaluation by a third-party organization that is independent of the Government and the contractor. All

documentation supplied to, and produced by, the third party should be made available to both the Government and the contractor.

The use of a SOO can be especially advantageous and cost-effective because it can require the contractor to propose metrics and the QAP, rather than have the Government develop it. This is particularly appropriate when using a SOO since the solution is not known until proposed. With a SOO offerors are free to develop their own PWS solutions (desired outcomes), so it makes sense for them to develop and propose a QAP that is tailored to their solution and commercial practices. When an agency develops the QAP/QASP, it runs the risk of potentially limiting what contractors can propose. Also, when contractors propose the performance metrics and the QAP, these become true effective discriminators among proposals in “best-value” evaluation and source selection.

GAO report GAO-03-661, Best Practices, “Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings,”⁵⁶ is on spend analysis programs that could improve service procurements. The report looked at five major companies that have implemented a spend analysis process and demonstrated saving in procurement spending. The key processes to spend analysis are:

- Automation
- Extraction of data
- Supplemental information
- Organization
- Analysis and strategic goals

The purpose of the reading is to look at some examples of commercial operations that uses spend analysis for service acquisition, the results and recommendations. DOD concurred with the recommendations and has taken a number of steps to improve the acquisition of services.

G. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

Continue to work on the performance work statements and develop a metrics for performance assessment of the contractor after award.

⁵⁶ GAO, June 2003. Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661.

H. READINGS FOR SESSION 8

Pages 13-14 and Appendix B and C of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 25 - 30 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Reynolds, William E., December 2002. Performance-Based Contracting the USAID Experience. Contract Management Magazine/December 2002, Volume 42, Issue 12, Pages 40-47

Rosenberger, Robert, December 2003. Performance-Based Contracting in a Non-Performance-Based World. Contract Management Magazine/ December 2003, Volume 43, Issue 12, Pages 42-48

Martin, Lawrence L., November 2002. Making Performance-Based Contracting Perform: What the Federal Government Can learn from State and Local Governments, New Ways to Manage Series, IBM Endowment for The Business of Government, November 2002

FAR Part 16: <http://www.arnet.gov/far/current/html/FARTOCP16.html>
(November 2005)

THIS PAGE INTENTIONALLY LEFT BLANK

X. SESSION 8: DETERMINE THE TYPE OF SERVICE CONTRACT

A. LEARNING OBJECTIVES

1. Learn about the different types of performance-based service contracts and how to pick the right one for your procurement.

B. INTRODUCTION

In this chapter the integrated solution team should select contract types that are most likely to motivate contractors to perform optimally, while concurrently maintaining consistency with effective contract management requirements and principles. The objective is to introduce to the maximum extent practicable performance-based operating principles and cost reductions for the Government.

C. READING MATERIAL FOR SESSION 8

1. Instructor

Reynolds, William E., December 2002. Performance-Based Contracting the USAID Experience. Contract Management Magazine/December 2002, Volume 42, Issue 12, Pages 40-47

Rosenberger, Robert, December 2003. Performance-Based Contracting in a Non-Performance-Based World. Contract Management Magazine/ December 2003, Volume 43, Issue 12, Pages 42-48

Martin, Lawrence L., November 2002. Making Performance-Based Contracting Perform: What the Federal Government Can learn from State and Local Governments, New Ways to Manage Series, IBM Endowment for The Business of Government, November 2002

FAR Part 16: <http://www.arnet.gov/far/current/html/FARTOCP16.html> (November 2005)

2. Students

Pages 13-14 and Appendix B and C of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 25 - 30 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Reynolds, William E., December 2002. Performance-Based Contracting the USAID Experience. Contract Management Magazine/December 2002, Volume 42, Issue 12, Pages 40-47

Rosenberger, Robert, December 2003. Performance-Based Contracting in a Non-Performance-Based World. Contract Management Magazine/ December 2003, Volume 43, Issue 12, Pages 42-48

Martin, Lawrence L., November 2002. Making Performance-Based Contracting Perform: What the Federal Government Can learn from State and Local Governments, New Ways to Manage Series, IBM Endowment for The Business of Government, November 2002

FAR Part 16: <http://www.arnet.gov/far/current/html/FARTOCP16.html> (November 2005)

D. CHOOSING THE TYPE OF CONTRACT APPROPRIATE FOR PBSA

According to Federal Acquisition Regulation (FAR) Part 16,⁵⁷ contract types are grouped into two broad categories: fixed-price contracts (see FAR Subpart 16.2) and cost-reimbursement contracts (see FAR Subpart 16.3). The specific contract types range from firm-fixed-price, in which the contractor has full responsibility for the performance costs and resulting profit (or loss), to cost-plus-fixed-fee, in which the contractor has minimal responsibility for the performance costs and the negotiated fee (profit) is fixed. In between are the various incentive contracts (see FAR Subpart 16.4), in which the contractor's responsibility for the performance costs and the profit or fee incentives offered are tailored to the uncertainties involved in contract performance.

The contracting model that ideally meets the PBSA objective is a Fixed-Price contract. This type of contract is appropriate for services that can be objectively and definitively described in a solicitation and for which risk of performance is manageable. Unfortunately, the types of solicitation characteristics are atypical of the large majority of contracting requirements that traditionally has been based upon Cost-Reimbursement type contracts for support services. The decision to employ this type of service contracting has been driven by the large number of technical and engineering support acquisitions that can typically be characterized as having a diversity of advanced technical complexity and in which there may be no problem yet defined, or there are inherent uncertainties and/or lack of specificity associated with the ability to define desired outcomes or permit costs to be adequately estimated.

⁵⁷ Federal Acquisition Regulation (FAR) Part 16:
<http://www.arnet.gov/far/current/html/FARTOCP16.html>. (November 2005)

Like most acquisitions for advanced R&D, it is practically impossible to dictate performance requirements for outcomes (solutions) as yet unknown or poorly understood until there is sufficient and adequate work product, supporting data and knowledge base available in the subject area to enable or justify full implementation of a Performance Work Statement.

The integrated solution team reviews the range of contract types and contracting options available in the context of meeting performance-based service contracting principles while at the same time trying to address the above project technical complexities and engineering characteristics and potential performance management ambiguities that are common to professional service contracting experience base. Under law and regulation (OFPP),⁵⁸ there is an order of preference in contract types used for performance-based contracting, as follows:

- (i) A firm-fixed price performance-based contract or task order
- (ii) A performance-based contract that is not firm-fixed price
- (iii) A contract that is not performance-based

The FAR provides an array of contract types to accommodate the acquisition of various types of services and supplies. Contract types vary according to 1) the degree and timing of the responsibility assumed by the contractor for the costs of performance, and 2) the amount and nature of the profit or other incentive offered to the contractor for achieving or exceeding specified standards or objectives. These contract types provide a range of allocation of risk of contract performance between the contractor and the Government. Procurement professionals and program offices must select contract types and pricing arrangements that are compatible with the nature of a specific requirement, support the tenets of performance-based contracting, except for the exclusions identified in FAR 37.102 and guidance provided by the OMB-OFPP Memorandum of September 7,

⁵⁸ Page 25 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

2004.⁵⁹ The objective is to introduce, to the maximum extent practicable performance-based operating principles and cost reductions for the Government.

OFPP counsels, however, that Agencies must take care in implementing this order of precedence. There should be awareness that a firm-fixed price contract is not the best solution for every requirement. “Force-fitting” the contract type can actually result in much higher prices as contractors seek to cover their risks. This view is upheld by FAR 16.103(b) which indicates, “A firm-fixed-price contract, which best utilizes the basic profit motive of business enterprise, shall be used when the risk involved is minimal or can be predicted with an acceptable degree of certainty. However, when a reasonable basis for firm pricing does not exist, other contract types should be considered, and negotiations should be directed toward selecting a contract type (or combination of types) that will appropriately tie profit to contractor performance.” The decision about the appropriate type of contract to use is clearly tied to the sponsor’s needs and can go a long way toward motivating superior performance or contributing to poor performance and results. Market research, informed business decision, and negotiation will assist in determining the best contract type. A range of contract types and contracting options are available in the context of meeting performance-based service contracting principles, while at the same time trying to address sponsor project technical complexities and engineering characteristics and potential performance management ambiguities that are consistent with performance-based contracting requirements and regulations.

1. Firm Fixed-Price Contracts (FFP)

A firm-fixed-price performance-based contract provides for a price that is not subject to any adjustment on the basis of the contractor’s cost or risk experience in performing the contract. This performance-based contract type places full responsibility and maximum risk upon the contractor for all costs and resulting profit or loss. It provides maximum incentive for the contractor to control costs and perform efficiently, while imposing a minimum administrative burden upon the contracting parties. Firm Fixed-Price performance contracts should be employed for routine repetitive services

⁵⁹ Robert A. Burton, September 7, 2004. Increasing the Use of Performance-Based Service Acquisition, Office of Management and Budget, <http://www.acqnet.gov/Notes/MemoCAO-PE%20Reporting%20Requirements.pdf>. (November 2005)

where specific, well-defined scopes of work and outputs [outcomes] can be written; where quantities and rate of services and/or products delivery is known at the outset of the contract; and when available cost or pricing information permits realistic estimates of the costs of performance. This type of contract is NOT DESIRABLE where uncertainties exist or flexibility is needed during contract performance. In most cases the contractor will provide only what is called for in the specification or PWS and relevant performance metrics in order to minimize his costs and risks and, conversely maximize his profit on the contract's fixed price. If many uncertainties or risks exist in the performance of the contract, it is likely the contractor will factor-in the cost of contingencies in its price, which could result in a greater cost to the Government than if some alternative cost-type contract were used.

2. Fixed-Price Contracts with Provisions for Economic Price Adjustment

A fixed-price performance-based contract with provisions for economic price adjustment provides for upward and downward revision of the stated contract price upon occurrence of specified economic contingencies. The use of this variant of the FFP contract is suitable when contract performance will occur over an extended period of time, when there is uncertainty in the ability to project cost fluctuations for services or other relevant deliverables from established price norms during the period of performance, or when the foreseeable potential exists for actual labor and/or materials cost contingencies external to and/or beyond the contractor's or Government's control might occur during the period of the contract.

3. Fixed-Price Incentive Fee (FPIF) Contracts

A fixed-price incentive (firm target) type of contracting approach for a conventional contract provides for adjusting profit and establishing the final contract price by a formula based upon the relationship of final negotiated allowable cost of contract to total target cost. The final price is subject to a price ceiling (the negotiated allowable cost), negotiated at the out-set of the contract. This type of incentive contracting may be particularly useful in situations where the use of a FFP contract is not prudent because of the level of estimating uncertainties, but where uncertainties are not of such a degree as to justify the use of a cost-reimbursement type of contract. The modest

flexibility under this type of contracting may allow the contractor to reach agreement on price for certain requirements that would not be achievable in a firm fixed-price environment. However, the ceiling price of this type of contract must be high enough above the target price to provide a realistic and meaningful incentive range.

Incentive contracts are designed to obtain specific acquisition objectives by (1) establishing reasonable and attainable targets that are clearly communicated to the contractor; and (2) including appropriate incentive arrangements designed to motivate contractor efforts that might not otherwise be emphasized, resulting in a discouragement of contractor inefficiency and waste. Elaborate incentive provisions that require a considerable investment of time to administer must be weighed against the expected benefits to the Government.

4. Cost-Reimbursable (CR)

Contracts that reimburse the contractor for allowable costs as prescribed in the contract. CR contracts only offer minimum incentive for the contractor to control cost unless additional incentives are provided. CR contracts range from fixed-fee to no-fee contracts. A CR contract establishes a limit on the amount of allowable costs that may be incurred thus obligating government funding to pay for the effort being authorized and establishing the contractor's fee for successful performance.

5. Cost-Plus-Fixed-Fee (CPFF)

Contracts that allow the contractor to receive reimbursement for allowable cost, up to the funded amount (ceiling or obligated funds), plus the negotiated fee. This fee is fixed from the inception of the contract and does not vary with actual cost unless it is a result of work being changed under the contract.

6. Cost-Plus-Incentive-Fee (CPIF)

Contracts that provide for reimbursement of allowable costs, up to the funded amount (ceiling or obligated funding), plus a fee that is adjusted by a formula in accordance with the contract. Under a CPIF contract there is a negotiated initial target cost, a target fee, a minimum and maximum fee, and a fee adjustment formula that is dependent on how well the contractor meets the target requirements.

7. Cost-Plus-Award-Fee (CPAF)

Contracts that provide a fee consisting of a base fee, fixed at the inception, and an award fee, determined by how well the contractor meets the periodic milestones set forth in the contract.

8. Cost-Sharing (CS)

A contract that the contractor receives no fee and is reimbursed only for an agreed portion of its allowable costs.

9. Cost-Without-Fee (CWF)

A contract that is a Cost-Reimbursement contract in which the Contractor receives no fee. The benefit to the Contractor in accepting such a contract may be technology gain.

10. Cost-Plus-Award-Term Contract (CPAT)⁶⁰

This is not a recognized incentive contract by FAR at this time, but is one that is becoming more commonly used for service contracts. This is a performance-based type of contract that awards the contractor additional periods of performance instead of money as compensation for quality performance. Or, if contractor performance is habitually below standard, the period of performance can be shortened. The effective use of an Award-Term incentive demands a high level of contracting knowledge and skill during contract formation. It requires that acquisition planners effectively solve many complex incentive design problems. It requires that the contracting parties communicate clearly and work together effectively when negotiating contract terms and drafting contract language in order to ensure a common understanding of the nature of this undertaking. It requires a new approach to contract management, one in which the parties openly acknowledge that they cannot see or plan far into the future and that this contract may be incomplete, and in which they agree to learn together, adjust their expectations when necessary, and engage in cooperative, ad hoc decision making during the course of performance in order to fill the gaps in their original agreement. The contractor's level of

⁶⁰ Page 27 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

risk in this contracting approach is comparable to that which typically is reserved for Cost-Plus-Fixed-Fee contracts.

An Award-Term Determination Plan is the basis for the evaluation of the Contractor's performance and for presenting an assessment of that performance to a Term Determining Official (TDO). For example, contractor evaluation process for each Term Determination increment begins immediately after completion of the first Quarter phase-in of an awarded contract or Contract Line Item Number (CLIN) (beginning month 4) and ends nine (9) months from that date on the one-year anniversary of the subject T.O./D.O./CLIN unless the work is completed earlier. Contractor performance should be assessed on a continuing basis by review of Contract Deliverables, technical meetings, and general contacts with the Contractor. Interim contract management performance reviews should be conducted quarterly and formal contractor Quality Performance Reviews (QPR) must be conducted on a twelve (12) month interval. The Contract Base Performance Period is typically one (1) year and may be extended in one-year "Award-Term" increments, up to an additional four (4) years, based upon an overall satisfactory QPR contract performance under the Contract. The Plan describes the specific criteria and procedures to be used to assess the Contractor's performance and to determine the earned Award-Term entitlement. Actual Award-Term determinations and the methodology for determining the Award-Term are unilateral decisions made solely at the discretion of the Government.

Any Contract Award-Term extensions earned are reflected in unilateral Contract modifications as determined by the TDO. The Award-Term earned is determined by the TDO based upon review of the Contractor's performance against the criteria set forth in the Performance Plan. The TDO may unilaterally change the Plan prior to the beginning of an evaluation period. Changes to the Plan that are applicable to a current evaluation period must be incorporated by mutual consent of both parties.

The Award-Term Determination Plan contractually entitles the Contractor to a minimum of one (1) Award-Term Contract extension per year based upon the Government's requirements to exercise incremental extension years plus the Contractor sustaining no less than satisfactory Interim or QPR performance scores annually to be

able to qualify for such incremental Award-Term extensions. Term extensions are only subject to cancellation based upon: discontinuance of the Government requirement; lack of appropriated funding; termination for the Government's convenience in the event that the Contractor is deemed "no longer responsible" as defined by FAR 9.100; TDO determinations of marginal, or unsatisfactory Contractor performance ratings; TDO determinations of inconsistent Contractor performance that demonstrates a decline from satisfactory or better to marginal or unsatisfactory; six-month notice to opt out of the Contract by the Contractor to the Government; and Federal regulatory or legal prohibition of Award-Terms or restraints on the duration of contracts.

NOTE: Award-Terms Not Earned - If the Contractor fails to earn an Award-Term by the end of the Base Performance Period, the activities and Award-Term incentive provisions of the Contract are suspended pending Contract performance review by the Award Term Review Board (ATRB). The ATRB will make a final determination and recommendation to the TDO and CO regarding terms for Contract Continuation or Termination for cause. The suspension, voiding, or cancellation of any Award-Term incentive for any reason stated by the Government shall not be considered either a termination for convenience or a termination for default and shall not entitle the Contractor to an equitable adjustment or any other compensation.

11. Hybrid ID/IQ Cost-Plus-Performance-Fee (CPPF) Task Order Contract

This is an Indefinite Delivery/Indefinite Quantity Task/Delivery Order cost-reimbursement, performance-based type of contracting approach modeled after the cost-plus-award-fee contract format to apply performance-based principles to the maximum extent possible to contracting activities with mixed levels of risk that would have typically been addressed by the traditional ID/IQ CPFF Task Order-type contracting approach. Characteristics of this type of performance-based contract vehicle can be summarized as follows:

- There is less risk for the contractor than a cost-reimbursement incentive fee type of Task Order Contract because the Government pays all allowable costs, and the Performance Fee established at contract inception is not directly linked to or subject to later adjustment by a formula based

on the relationship of total allowable costs to total target costs of the T.O., and is incrementally paid out periodically during performance of the T.O.

- It is a desirable contracting form when it is not possible to implement any form of fixed-price contracting due to characterization of the acquisition as having a number of requirements [but not necessarily all] containing: a diversity of advanced technical complexity in which there may be no problem yet defined, or there are inherent uncertainties and/or lack of specificity associated with the ability to define desired outcomes or permit costs to be adequately estimated and in which the exact times and/or exact quantities of future services deliveries are not known at the time of contract award.
- Definitive PWS and QAP/QASP requirements can be established for individual Task Orders.
- Periodic evaluations are conducted at quarterly intervals during performance and results communicated to the contractor.
- The Performance Fee elements included in each individual Task Order consist of:
 - A Performance-Criteria Rating Plan based upon the metrics in the T.O. QAP/QASP by which performance will be evaluated.
 - A Base Amount [of fee] (may be zero) that is established at the beginning of the T.O. award and paid to the contractor on the basis of the number of Direct Productive Labor Hours (DPLH) actually delivered relative to the number of DPLH targeted for the T.O., and
 - A Performance Amount [of fee] that the contractor may earn in whole or in part during T.O. performance, based on periodic evaluation of contractor performance against the Performance-Criteria Rating Plan, and that is sufficient to provide motivation for excellence in such areas as quality, timeliness, technical ingenuity, cost-effective project management, etc.
- The amount of the Performance Fee to be paid is determined solely by the Government's unilateral judgmental evaluation of the contractor's performance in terms of criteria defined in the Performance-Criteria Rating Plan.

12. ID/IQ Cost-Plus-Fixed-Fee (CPFF) Task/Delivery Order Contract

This is a NON-performance-based, Indefinite Delivery/Indefinite Quantity Task/Delivery Order cost-reimbursement type of contract. It is characterized by providing for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. This fee does not vary with actual allowable incurred costs, but may be

adjusted as a result of changes in the scope of work to be performed under the contract. A CPFF contract may be used when there is an absence of a reasonable basis for firm pricing or there is a need for flexibility in performance of contract requirements because the contractor is judged to be at risk as a result of diverse advanced technical complexities in which there may be *no* problem yet defined, or there are inherent uncertainties and/or lack of specificity associated with the ability to define desired outcomes or permit costs to be adequately estimated and in which the exact times and/or exact quantities of future services deliveries are not known at the time of contract award. A cost-plus-fixed-fee contract may take one of two basic forms -- completion or term. The completion form describes the scope of work by stating a definite goal or target and specifying an end product. The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. Because of the differences in obligation assumed by the contractor, the completion form is preferred over the term form whenever the work, or specific milestones for the work, can be defined well enough to permit development of estimates within which the contractor can be expected to complete the work.

13. Hybrid ID/IQ Multi-Format Task/Delivery Order Contract

If the requirements are of a highly complex nature a combination of contract types utilizing traditional fixed-price, cost-reimbursement, and performance-based principles may be desirable to maximize contractor performance and cost efficiencies for the Government. This integrated multiple-format type of contract could be structured by the acquisition team to select and apply to each individual Task Order, within the context of the whole contract, the most appropriate contracting and pricing strategy based upon an analysis of the characteristics and risks associated with any given T.O. This would make it possible to include FFP Task Orders, FPIF task orders, CPPF task orders, CPFF task orders, and other suitable forms into one encompassing contracting vehicle with performance-based attributes to facilitate optimization of benefits to the Government. The only constraint in proper development of such a hybrid contracting vehicle would be to make certain that all provisions and requirements in the contract are in compliance with their relevant authorities or guidelines as defined under the FAR – Part 16.

Lawrence L. Martin's paper on "Making Performance-Based Contracting Perform: What the Federal Government Can Learn from State and Local Governments,"⁶¹ is a good lessons learned document with case studies that illustrate examples of how to make performance-based service contracts work in the federal government. The report starts by looking at some key characteristics of federal contracting and the importance performance-based contracting will have to our future. It follows up with a perspective of federal performance-based contracting. This includes definitions, essential elements of performance-based contracting and problems with the federal perspective. It goes on to address the state and local government perspective on performance-based contracting with case examples. These case examples provide insight into what is working in the commercial sector as well as state and local governments.

Robert Rosenberger's article, "Performance-Based Contracting in a Non-Performance-Based World,"⁶² provides some insight into the application of incentives and how they can benefit programs using performance-based contracts. Mr. Rosenberger recommends that we use equal incentives, based on a system of equal positive and negative incentives for each performance criteria, good performance earns positive reward ("carrot") and poor performance earns a negative reward ("stick"). He offers up a few illustrations in the form of tables that help explain his position. His conclusion is that our contracts should be as innovative as the knowledge and technological services that we buy.

Another article of interest is by William E. Reynolds, "Performance-Based Contracting: The USAID Experience"⁶³ looks at The United States Agency for International Development (USAID) and the application of performance-based contracting for overseas development projects. A different application of performance-

⁶¹ Lawrence L. Martin, November 2002. Making Performance-Based Contracting Perform: What the Federal Government Can learn from State and Local Governments, New Ways to Manage Series, IBM Endowment for The Business of Government, November 2002.

⁶² Robert Rosenberger, December 2003. Performance-Based Contracting in a Non-Performance-Based World. Contract Management Magazine/ December 2003, Volume 43/Issue 12.

⁶³ William E. Reynolds, December 2002. Performance-Based Contracting the USAID Experience. Contract Management Magazine/December 2002, Volume 42/Issue 12.

based service acquisition that demonstrates its flexibility when the three basic elements of PBSA are applied:

- Clearly defined results that describe the government's requirements,
- Measurable performance standards (indicators) and a quality assurance plan, and
- Specific procedures for either "negative incentives" or "positive incentives" for contractor performance.

A different application with common characteristics that can be good lessons learned.

E. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

Teams should be in the process of writing their performance work statements and may want to consider using a checklist for performance work statement (Statement of Work) as well as their Quality Assurance Surveillance Plan (QASP). A checklist from the Air Force, found on <http://www.usafa.af.mil/10abw/10msg/lgc/qapc/Checklist.doc> (November 2005) or from the Office of Management and Budget (OMB) found on <http://www.arnet.gov/Library/OFPP/PolicyDocs/pbscckls.html> (November 2005) may be helpful to the teams in their efforts.

F. READINGS FOR SESSION 9

Pages 18-19 of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 31 - 36 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Hunt III, George R., September 2001. Comparing Source Selection Techniques. Contract Management Magazine/September 2001, Volume 41, Issue 9, Pages 10-16

Gardner, Steve W., June 1998. Source Selection in a Streamlined Acquisition Environment, Best Business Practices, PM: May-June 1998

Garrett, Gregory A., May 2005. Performance-Based Acquisition: The Real Essential Elements, Contract Management Magazine, May 2005, Volume 45, Issue 5, Pages 42-49

THIS PAGE INTENTIONALLY LEFT BLANK

XI. SESSION 9: CONTRACTOR SELECTION PROCEDURES

A. LEARNING OBJECTIVES

1. Learn about the contractor selection process, the importance and how to develop the process to meet your PBSA requirements.

B. INTRODUCTION

In this session we are evaluating source selection techniques. This is very important for the integrated solutions team to have a means to select their newest member of the team, the contractor. The first key to selection of the best contractor relies on the success of the team to describe the problem that needs to be solved in terms of objectives and outcomes and to allow the contractors to compete through proposing solutions. The process describe here-in provides some techniques that may be used to help the team make that decision.

C. READING MATERIAL FOR SESSION 9

1. Instructor

Hunt III, George R., September 2001. Comparing Source Selection Techniques. Contract Management Magazine/September 2001, Volume 41, Issue 9, Pages 10-16

Gardner, Steve W., June 1998. Source Selection in a Streamlined Acquisition Environment, Best Business Practices, PM: May-June 1998

Garrett, Gregory A., May 2005. Performance-Based Acquisition: The Real Essential Elements, Contract Management Magazine, May 2005, Volume 45, Issue 5, Pages 42-49

2. Students

Pages 18-19 of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 31 - 36 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.arnet.gov> (November 2005)

Hunt III, George R., September 2001. Comparing Source Selection Techniques. Contract Management Magazine/September 2001, Volume 41, Issue 9, Pages 10-16

Gardner, Steve W., June 1998. Source Selection in a Streamlined Acquisition Environment, Best Business Practices, PM: May-June 1998

Garrett, Gregory A., May 2005. Performance-Based Acquisition: The Real Essential Elements, Contract Management Magazine, May 2005, Volume 45, Issue 5, Pages 42-49

D. SELECTING THE RIGHT CONTRACTOR

Seven Steps to Performance-Based Services Acquisition⁶⁴ provides guidance on selecting the right contractor for a performance-based service acquisition. In order to select a contractor, the Government must establish a rule that defines the basis upon which it will decide which proposed offer is most advantageous to the Government. Historically, agencies have used two decisional rules. The first rule recognizes selection of the offeror whose proposal is technically acceptable and who offers the lowest price. This is referred to as the Lowest-Price-Technically-Acceptable (LPTA) method of source selection. The second rule requires selection of the offeror whose proposal reflects the best combination of features, regardless of whether the offeror's price is the lowest. This is defined as the Best-Value method of source selection and preferred with performance-based service acquisitions.

The contractor must understand the performance-based approach, know or develop an understanding the agency's requirements and have a history of performing exceptionally in the specific elements. Developing an acquisition strategy that allows competition for the solution and has a basis for awarding to right contractor.

Past performance is an important key in evaluating future performance. There are two familiar methods of assessing contractor's past performance. Asking the offerors to provide references and seeking information from their references or using past performance information databases. The Past Performance Information Retrieval System (PPIRS) is a government-wide repository (<http://www.ppirs.gov> (November 2005)). These archived records of evaluations of contractor past performance then become a reference resource that can be accessed by any Government agency that would like to review the factual history of a given contractor's previous work for the Government for future source selection purposes. Past performance is an aggregation of three (3) things:

⁶⁴ Pages 31 - 36 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.arnet.gov>. (November 2005)

1) observations of the historical facts of a company's work experience – what work was performed, when and where it was performed, whom it was done for, and what methods were employed; 2) qualitative judgments about the breadth, depth, and relevance of that experience based on those observations; and 3) qualitative judgments about how well the company performed its tasks, based on those observations.

Regardless of the method used, the past performance criteria must provide information that is relevant, current and accurate. For example, the information requested of the contractor and evaluated by the integrated solutions team should be designed to determine how well, in contracts of similar size, scope and complexity, the contractor--

- Conformed to the contract requirements and standards of good workmanship.
- Adhered to contract schedules.
- Forecasted and controlled costs.
- Managed risk.
- Provided reasonable and cooperative behavior and commitment to customer satisfaction.
- Demonstrated business-like concern for the interest of the customer.

Combining past performance with best-value allows flexibility in selection through tradeoffs between the cost and non-cost evaluation factors with the intent of awarding to the contractor that will give the government the greatest or best value for the cost. The integrated solutions team should consider including factors such as the following in the evaluation model:

- Quality and benefits of the solution
- Quality of the performance metrics and measurement approach
- Risks associated with the solution
- Management approach and controls
- Management team (limited number of key personnel)
- Past performance (how well the contractor has performed)
- Past experience (what the contractor has done)

Best value source selection involves subjective analysis and should not be reduced to a mechanical, mathematical exercise. The source selection officials have broad discretion in determining the manner and extent they will use the technical and price tradeoffs in negotiated procurements. It is important to plan the source selection process carefully and follow the plan.

Vernon J. Edwards teaches techniques in source selection, the following is one of his samples used in his course “Oral Presentation for Source Selection.”⁶⁵

E. SAMPLE EVALUATION FACTORS FOR AWARD

1. General

The Government will award the contract to the offeror representing the best overall value. The Government will determine best overall value on the basis of the factors described below. Offer (Proposal). The Government will evaluate offers (proposals) for acceptability on a pass or fail basis. The Government will consider an offer to be acceptable if - and only if - it manifests the offeror's unconditional assent to the terms and conditions of the RFP, which include the statement of work. The Government will not consider any offer that takes exception to any term or condition of the Request for Procurement (RFP), or that otherwise fails to manifest the offeror's unconditional assent to a term or condition, to be unacceptable, unless the RFP expressly provides that assent to the term or condition in question is not mandatory. Any unauthorized exception or failure will constitute a deficiency (see FAR 15.001). An offeror may eliminate a deficiency in its offer only through discussions. The Government intends to award the contract without discussions.

2. Offeror Capability

The Government will evaluate the capability of the offerors, which submitted acceptable offers (proposals). The Government will evaluate their capability on the basis of: (1) experience, (2) past performance, (3) understanding of the work, and (4) compliance with RFP instructions, as follows.

⁶⁵ Vernon J. Edwards, Copyright © January 1997. Oral Presentation for Source Selection, by Vernon J. Edwards (Stated in course material: Registered students may copy without further permission.) (Penny S. Kennedy and Joe T. McClure were registered students in V. Edwards course).

a. Experience

Experience is the opportunity to learn by doing. The Government will assess each offeror's work records to determine whether, during the past years, the offeror has had the opportunity to learn about relevant work processes and procedures and about the nature, difficulties, uncertainties and risks associated with performing the work that will be required under the prospective contract. The Government will try to determine how many opportunities an offeror has had, as a business entity, to carry out those processes and procedures and to cope with those difficulties, uncertainties, and risk. The Government will not attribute to an offeror the individual experience of the offeror's current or prospective employees.

b. Past Performance

Past performance is a measure of the degree to which an offeror, as an organization, has: (1) satisfied its customers, and (2) complied with federal, state, and local laws and regulations. The Government will inquire about: (1) the quality and timeliness of the offeror's work; (2) the reasonableness of its prices, costs, and claims; (3) the reasonableness of its business behavior-its willingness to cooperate and helpfulness in solving problems; (4) its concern for the interests of its customers; and (5) its integrity. In the investigation of an offeror's past performance the Government will contact former customers and government agencies, and other private and public sources of information. The Government will not attribute to an offeror the individual past performance of the offeror's current or prospective employees.

c. Understanding of the Work

The Government will evaluate each offeror's understanding of the work on the basis of its oral presentation and the responses it gives during the question and answer session that will follow the oral presentation. In making this evaluation the Government will consider an offeror's: (1) knowledge of the content of the work in terms of its constituent activities, their inputs and outputs, and their interrelationships and interdependencies; (2) recognition of the appropriate sequence and realistic duration of the work activities; (3) knowledge of the appropriate types of resources required to perform the work and of their appropriate allocation to the work activities; (4) familiarity

with the difficulties, uncertainties, and risks associated with the work; and (5) knowledge of the personnel and subcontractor qualifications necessary to the performance of the work.

d. Compliance with RFP Instructions

The Government will assess the extent to which each offeror complied with the letter and the spirit of the instructions in this RFP. The Government will consider any failure to comply with the letter or the spirit of these instructions to be indicative of the kind of behavior that it could expect during contract performance and of a lack of capability to perform satisfactorily.

(1) Level of Confidence and Expected Value. The Government will determine its level of confidence in each offeror on the basis of its evaluation of the offeror's capability. Level of confidence will be a subjective rating which will reflect the degree to which the Government believes that an offeror is likely to keep the promises it made in its offer. The Government will use this rating in order to determine the relative expected value of each offeror's promises.

(2) Relative Importance of the Factors. Since an offer must be acceptable in order for an offeror to be eligible for contract award, and since the Government will evaluate acceptability on a pass or fail basis, acceptability of the offer (proposal) is the most important evaluation factor. In deciding which, of the offerors submitting an acceptable offer is the best overall value, the Government will consider an offeror's capability and the Government's level of confidence in the offeror to be significantly more important than price. When assessing offeror capability, the Government will consider experience, past performance, understanding of the work, and compliance with RFP instructions to be equally important.

(3) Determining Best Overall Value. In order to determine which offeror represents the best overall value, the source selection authority will make a series of paired comparisons among only those offerors that submitted acceptable offers (proposals). If, in any paired comparison, the offeror with the higher expected value also has the lower price, then the source selection authority will consider that offeror to represent the better overall value. If the offeror with the higher expected value has the higher price, then the source selection authority will decide whether the difference in

expected value is worth the difference in price. If the source selection authority decides that it is, then he or she will consider the offeror with the higher expected value and the higher price to represent the better overall value. If not, then the source selection authority will consider the offeror with the lower expected value and the lower price to represent the better value. The source selection authority will continue to make paired comparisons in this way until he or she has identified the offeror representing the best overall value.

The Source Selection Authority (SSA) may base final selection of contractors upon an objective Level of Confidence Assessment Rating (LOCAR) best-value analysis and determination considering the factors: Technical Capabilities, Past Performance, and Cost. An adjectival or numerical rating system is employed with the offerors, ranked in order of their overall score.

F. KEYS TO SOURCE SELECTION

The first key to selection of the best value contractor relies on structuring its acquisition in such a manner that it describes the problem that needs to be solved and defines the objectives or outcomes that need to be achieved, and by allowing vendors to compete by proposing solutions. Then, the overall quality of the proposed solution and the contractor-proposed performance measures and methodology become true discriminators in a “best-value” evaluation. A contractor’s oral presentations by their proposed project manager and key personnel can further clarify the proposed solution(s) and demonstrate their capability, understanding of the requirements, and evidence their ability to function effectively as a team.

Development by the integrated solutions team of a sound acquisition strategy that will lead to selection of the right contractor for a given project is extremely important in performance-based acquisition. While there are many aspects to crafting an effective acquisition strategy among the most important to the acquisition team for performance-based procurement are to compete the solution, to make a competitive range determination of those contractors most likely to offer a successful solution, to evaluate them heavily on past performance information, to request oral presentations as appropriate, and to make a “best-value” contractor selection decision.

George R. Hunt III writes on “Comparing Source Selection Techniques.”⁶⁶ This article written in early 2001, comparing different techniques for conducting the source selection process provides a variety of source selection techniques and tools available to allow a source selection team to conduct a source selection, the article choose three tools to compare and contrast:

- Classical method
- FEDSelect
- Expert Choice

The background presented a brief discussion of the importance of conducting a thorough and consistent evaluation in accordance with the procurement package. He went on to talk about the regulations, factors and sub-factors, common scoring methods, decision support software, and types of evaluation systems. The comparison looked at both advantages and disadvantages to each of the methods or systems. In conclusion, he reverted back to each acquisition is different, but having proper factor use and weighting, as well as appropriate scoring methods, will make the solicitation and evaluation manageable.

Another article that may be useful in understanding source selection processes, is Lt. Col. Steve W. Gardner’s, “Source Selection in a Streamlined Acquisition Environment.”⁶⁷ Gardner comes at source selection from a different perspective implying that source selection teams should be encouraged to use common sense and integrity (what makes sense), but make it as simple as you can make it. The article goes through the writing of the proposal, particularly sections L and M, what the offeror is required to submit for evaluation and how it will be evaluated. He goes on to talk about source selection libraries, this is where all documents reside and additional information is stored as it is created. Building effective source selection teams is the key to an efficient source selection. Factors should be streamlined to a set up of criteria and weightings according to what makes sense, not to a preordained rule. Training is also an important factor,

⁶⁶ George R Hunt III, September 2001. Comparing Source Selection Techniques. Contract Management Magazine/September 2001, Volume 41, Issue 9, pp. 10-16.

⁶⁷ Steve W. Gardner, June 1998. Source Selection in a Streamlined Acquisition Environment, Best Business Practices, PM: May-June 1998.

training need not be extensive, but it should cover at least one factor and all levels of evaluation. He concludes that streamlined source selection is more challenging, but much more rewarding, and can lead to shorter source selection periods and saving significant time and money.

Gregory A. Garrett's May 2005 article, "Performance-Based Acquisition: The Real Essential Elements,"⁶⁸ discusses what he calls, the real essential elements of success, the four Ps: "People, Processes, Performance, and Price." He presents these elements through a series of case studies and attempts to demonstrate, though some experts may disagree saying it is too simplistic, the premise of the four Ps in performance-based acquisition as the essential elements for success. He concludes that "Together, the right people using the right processes will achieve the right performance, which should drive the right price (strategy and arrangement) for the specific acquisition situation." Remember, "Simplicity is the ultimate sophistication."

G. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

The integrated solutions teams shall finish their projects by developing a source selection strategy and adding the source selection plan to their package. Remember that no matter how good your performance work statement describes the problem that needs to be solved and defines the objectives or outcomes that need to be achieved, selection of the right contractor will depend also on your source selection process. It is important that vendors compete by proposing solutions that meet your requirements, but it is equally important to be able to distinguish between the best performers and to make an award that has the best opportunity for success. The next session, Session 10, will be the final learning session for the class. The last two sessions (Sessions 11 and 12) will be reserved for team presentations of their projects and packages. All completed projects are due at the end of Session 10.

H. READINGS FOR SESSION 10

Pages 20 of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

⁶⁸ Gregory A. Garrett, May 2005. Performance-Based Acquisition: The Real Essential Elements, Contract Management Magazine, May 2005, Volume 45, Issue 5, pp. 42-49.

Pages 37-41 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Reed, Anne and Welch, Bob, November 2005. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Contract Management Magazine, November 2005, Volume 45, Issue 11, Pages 16-25

Burman, Allan V., July 2000. Moving Backward to Get Ahead, Government Executive Magazine, July 2000, Volume 5 No. 3

Lawther, Wendell C., January 2002, Contracting for the 21st Century: A Partnership Model, New Ways to Manage Series, January 2002, The PricewaterhouseCooper Endowment, The Business of Government.

XII. SESSION 10: EFFECTIVE MANAGEMENT OF POST-AWARD CONTRACT PERFORMANCE

A. LEARNING OBJECTIVE

1. Learn about the importance of effective management of post-award contract performance and how the PBSA “Team” must stay intact and assume different roles and responsibilities.

B. INTRODUCTION

In this final session we discuss really a whole new subject, the management of performance-based service contracts. This is really where the work starts, but if we have done a good job implementing the process then this should make for effective means for post-award management of the contract. The important difference between the traditional service contracts and performance-based service acquisition is the team must stay together with the addition of the contractor and work with the contractor to achieve the objectives and outcomes. The team’s roles and responsibilities may change, but they are the most informed consumer for the effort and are the best qualified to evaluate how well the contractor has met the requirements.

C. READING MATERIAL FOR SESSION 10

1. Instructor

Reed, Anne and Carter, Svetlana, May 2004. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Acquisition Directions Advisory, May 2004, Acquisition Solutions, Inc.

Reed, Anne and Welch, Bob, November 2005. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Contract Management Magazine, November 2005, Volume 45, Issue 11, Pages 16-25

Burman, Allan V., July 2000. Moving Backward to Get Ahead, Government Executive Magazine, July 2000, Volume 5 No. 3

Lawther, Wendell C., January 2002, Contracting for the 21st Century: A Partnership Model, New Ways to Manage Series, January 2002, The PricewaterhouseCooper Endowment, The Business of Government.

2. Students

Pages 20 of the Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense, March 2001.
http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)

Pages 37-41 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov> (November 2005)

Reed, Anne and Welch, Bob, November 2005. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Contract Management Magazine, November 2005, Volume 45, Issue 11, Pages 16-25

Burman, Allan V., July 2000. Moving Backward to Get Ahead, Government Executive Magazine, July 2000, Volume 5 No. 3

Lawther, Wendell C., January 2002, Contracting for the 21st Century: A Partnership Model, New Ways to Manage Series, January 2002, The PricewaterhouseCooper Endowment, The Business of Government.

D. EFFECTIVE MANAGEMENT OF POST-AWARD CONTRACT PERFORMANCE

The Seven Steps to Performance-Based Service Acquisition⁶⁹ provides formal guidance in the form of “Best Practices” to all Federal acquisition operations that are trying to comply with performance-based contracting. For the sake of consistency and completeness in preparing these performance-based contracting guidelines for application by the acquisition team, the following summarizes the Best Practices.

“The final step of performance-based acquisition is the most important. Unlike legacy processes where the contract is awarded and the team disperses, there is a growing realization that “the real work” of acquisition is in contract management. This requires that agencies allocate sufficient resources, in both the contracting or program offices, to do the job well.”

Many contracting staff learned their job when the culture was to maintain an arm's length distance (or more) from contractors and, by all means, limit the amount of contact the contractor has with program people. That approach would not work in today's environment and especially not in performance-based acquisition. The contractor must be part of the acquisition team itself, a reality recognized by the guiding principles of the federal acquisition system.

⁶⁹ Pages 37-41 of An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

FAR 1.102(c) provides: “The Acquisition Team consists of all participants in Government acquisition, including not only representatives of the technical, supply, and procurement communities but also the customers they serve, and the contractors who provide the products and services.”

“Effective contract management is a mission-critical agency function. To a large degree, the management of contract performance is guided by the contract's terms and conditions...” It is achieved with the support of the business relationships and communications established between the contractor and the integrated acquisition team described above. To be successful in performance-based acquisition, the recommendation is that at least a core of the integrated acquisition team for the project be retained intact [now as an integrated solutions team] to participate in contract management. Those on the team have the most knowledge, experience, and insight into what needs to happen next and what is expected during contract performance. Effective and efficient contract performance that delivers a solution is the goal. It is recommended that the team should stay together with an adjustment in roles and responsibilities to see that end reached.

Finally, the Best Practices guidance recommends having a formal contract post-award “kick-off” meeting to be attended by those who will be involved in contract performance and to formally add the contractor to the integrated solutions team at that time and to assure that agency and contractor personnel will work closely together to fulfill the mission and program needs. At the same time, notice should be given that contract management performance reviews, not for formal reporting and rebutting, but for maintaining the project on course, measuring performance levels, and making necessary adjustments, will be held at pre-determined intervals. The focus of these review meetings should be on improving performance - not evaluating people; issues recommended for examination at each meeting should include:

- Is the acquisition achieving its cost, schedule, and performance goals?
- Is the contractor meeting or exceeding the contract's performance-based requirements?
- How effective is the contractor's performance in meeting or contributing to the agency's program performance goals?
- Are there problems or issues that we can address to mitigate risk?

- Is there anything that the Government is requiring that affects the contractor's job in terms of quality, cost, schedule, or delivery of the solution?

The review meeting is an ideal time to informally discuss evaluations of the contractor's performance, as dictated by the contract terms and conditions and requirements of the FAR. FAR 42.15 now requires that agencies evaluate contractor performance for each contract in excess of \$100,000. The performance evaluation and report is shared with the contractor, who has an opportunity to respond before the contracting officer finalizes the performance report. In well-managed contracts, there has been continual feedback and adjustment, so the review meetings should provide for no surprises on either side.

E. MEASURING

When measuring performance the team has to decide on specific measures (measure the right things). The team should thoroughly understand the process they are measuring and should map out (take apart) and analyze, rather than assume, the process and outcome that will best satisfy the customer. The measurements should be central to the success of the process or outcome, targets of minimum and/or maximum should be defined.

Performance goals (benchmark measurements) are a common practice that will help both the contractor and the evaluators to understand the standard of measurement. By setting reasonable and attainable goals it will both motivate the contractor's performance and provide a benchmark for measurement by the acquisition (solutions) team. This also increases the understanding of the organization's mission and goals and unifies the workforce and helps emphasize the team philosophy. Other considerations are change and tolerance or variance (an acceptable range of variance for performance targets) in measurements. Some of our goals may change due to the nature of the business, priorities, or regulatory requirements. The team should develop the change, look at what needs to be measured and make the adjustments in the performance standards. But, be cautious of too many changes, although some are healthy and necessary, frequent changes will cause confusion and effect accountability.

F. GATHERING DATA

When gathering data the team needs to keep it focused, keep it flexible, keep it meaningful, and keep it consistent.

Keeping data gathering focused is very much a senior leadership responsibility. This focus ensures that the right data and only the right data are collected, that repetitious or tangential compilations are avoided, and that the questions originally posed by the performance measures are being answered.

Keeping data gathering flexible refers to the way in which data is collected. In the best of organizations data are collected from a variety of sources and through a variety of media. Any one system is not necessarily the right or wrong way to collect data and although automation is preferred, use the most cost efficient and accurate way to gather data.

Useful and relevant data can be gathered when the correct measures were set up in the first place. A few well-aligned measures taken seriously are better than a number of complex measurements that no one pays any attention too. But, on the other hand, do not make it too simplistic, be clear what data needs to be collected; with well-aligned measurements so that it is easy to see the data's relevance. To have effective performance measurements, the data collection must be tailored and thoughtful, not derived from a "one-size-fits-all" master checklist.

Consistency in data collection provides for a common framework of understanding that can be easily compared and analyzed, allowing subsequent evaluations to be comparable ("apples to apples").

The acquisition team (including the contractor after award) is responsible for collection of the data. The data collected is then analyzed for each performance measure to determine if and how well goals are being met. It is very easy for the data collection and analysis phase of performance measurement to get out of hand. It is important to remember that data collection and analysis are not a research activity, but rather data are collected and analyzed to get answers. Through it all, the team must remain focused on

the questions they are trying to answer. This focus on strategic alignment makes data collection a dynamic and vital, rather than a tedious and never-ending exercise.

G. DATA ANALYSIS

Data analysis is the process of converting raw data into performance information and knowledge. The data that have been collected are processed and synthesized and can then be compared to the actuality, to what they had expected to happen, decide why there might be a variance, and determine what corrective action might be required. With today's technology, many tools for effective performance analysis are readily available. Off-the-shelf software packages can perform straightforward aggregation/disaggregation, statistical analysis, linear programming, trend analysis, charting, quality control, operations research, process cost analysis, and forecasting. More sophisticated packages can also perform a wide range of quality control functions and econometric modeling.

Performance data can be displayed in a wide variety of ways, including graphic presentations such as histograms, bar charts, pie charts, and scatter diagrams. Most organizations use some form of spreadsheets and databases to organize and categorize their performance data. Information technology advances particularly in electronic communications will provide still more options for data display and dissemination.

H. REPORTING

This last set of activities is the subject of the next section reporting and using performance information. Performance information should be disseminated quickly. Getting useful information to the organization's decision makers promptly and efficiently is critical. There are many communication means that can meet this objective, including meetings, reports and e-mail, publications, and videoconferencing. Intranets are also being used to give entire organizations access to performance data summaries; this gives them the opportunity to be proactive about issues or adverse trends. Another performance reporting objective is to keep employees at all levels "in the loop," interested, and motivated.

Bob Welch and Anne Reed state that "Performance-based acquisition and management requires an inherent shift in an agency's culture, from one focused on control and oversight, compliance, and direction, to one focused on partnership,

collaboration, performance, and ultimately results,” in their article “Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management.”⁷⁰ The six disciplines are:

1. Cultural Transformation – Proactively manage the organizational and cultural changes integral to the success of the initiative;
2. Strategic Linkage – Provides a consistent vision throughout the organization, making sure the desired results reflect organizational strategic goals;
3. Governance – Establish roles, responsibilities, and decision making authorities for project implementation;
4. Communications – Identify the content, medium, and frequency of information flow to all stakeholders;
5. Risk Management – Identify, assess, monitor, and manage risks; and
6. Performance Monitoring – Analyze and report status – cost, schedule, and performance – on a regularly scheduled basis during project execution.

In this article they try to put the “how” into the direction that needs to be taken in order for integrated solutions teams to become integrated management teams. This is a big transition where the environment must promote and encourage measuring performance and delivery results, motivate teams and organizations, stimulate government and contractors to achieve desired results and establish a repeatable process. This is good place to start with change, because that is what it will take in order for the government to be a successful manager of performance-based service contracts.

The paper, “Contracting for the 21st Century: A Partnership Model,”⁷¹ by Wendell C. Lawther, Associate Professor of Public Administration, University of Central Florida, writes about current trends and challenges influencing contracting and contract administration. His look at the changing environment, performance-based service contracting and changing roles in contract administration will provide some insight into the future of contracting and contract administration. He goes on to talk about the

⁷⁰ Anne Reed and Bob Welch, November 2005. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Contract Management Magazine, November 2005, Volume 45, Issue 11, pp. 16-25.

⁷¹ Wendell C. Lawther, January 2002, Contracting for the 21st Century: A Partnership Model, New Ways to Manage Series, January 2002, The PricewaterhouseCooper Endowment, The Business of Government.

complexity and uncertainty service/product contracting and the relationship between the private and public sectors. In his conclusion, he compares the contractor-customer relationship to the public-private partnership. Public-private partnership introduces more complex contracting and a new era of how we may do business in the future.

The last article by Allan V. Burman, “Moving Backward to Get Ahead,”⁷² describes performance-based contracting as a very different process, one in which you start with the desired end-state. Burman stated, “It’s the outcome that helps you define the types of services to acquire as well as the performance standards needed to insure quality. This approach encourages contractor innovation, focuses all parties on results, and saves money by allowing greater flexibility in how the outcome is produced.”

From here on out, most all service contracts issued by the Department of Defense will be Performance-Based.⁷³ OFPP Policy Letter 91-2, Service Contracting,” established that:

It is the policy of the Federal Government that (1) agencies use performance-based contracting methods to the maximum extent practicable when acquiring services, and (2) agencies carefully select acquisition and contract administration strategies, methods, and techniques that best accommodate the requirements.

The intent is for agencies to describe their needs in terms of what is to be achieved, not how it is to be done. These policies have been incorporated in the [Federal Acquisition Regulation Subpart 37.6](#) (Performance-Based Contracting).

Law and regulation establish a preference for performance-based service acquisition. This Administration continues a long line of support for this acquisition approach. As cited in the Procurement Executives Council's Strategic Plan:

...over the next five years, a majority of the service contracts offered throughout the federal government will be performance-based. In other words, rather than micromanaging the details of how contractors operate,

⁷² Allan V. Burman, July 2000. Moving Backward to Get Ahead, Government Executive Magazine, July 2000, Volume 5 No. 3.

⁷³ Page 2 (Introduction)- An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. (Access the Web-Enabled version.) <http://www.acqnet.gov>. (November 2005)

the government must set the standards, set the results and give the contractor the freedom to achieve it in the best way.

Presidential Candidate George W. Bush on June 9, 2000

I. STUDENT/CLASS ASSIGNMENT, ACTIVITIES

The next two sessions will be presentations by the Integrated Solution Teams. Each Team will have approximately 50 minutes to make their presentations, be prepared to answer questions from both the class and the instructor.

THIS PAGE INTENTIONALLY LEFT BLANK

XIII. CONCLUSION

Performance-based service acquisition is here to stay. Though implementation has been slow, it offers significant gains in contract quality, potential for cost savings, contractor responsiveness, and customer satisfaction. DOD and all other federal agencies are committed to the implementation of PBSA. Federal agencies spend billions of tax dollars each year to buy services and DOD is, by far, the government's largest purchaser of services. Training is an important element toward improving the further implementation of PBSA.

This instructor guide and material focused mainly on the PBSA acquisition process through award of the performance-based contract. Understanding this process and crafting a performance work statement or statement of objectives that describe the work *objectives* in terms of what is to be the required output rather than how the work is to be accomplished and placing the responsibility for that accomplishment on the contractor are key elements of PBSA.

We should have learned the four basic requirements from the materials:

- Outcomes or requirements defined the work in measurable, mission related terms
- Measurable performance standards tied to requirements or outcomes
- Includes a plan and methodology for measuring performance against standards
- Performance incentives to promote contractor achievement of desired outcomes and/or performance objectives.

To achieve these key elements it requires an integrated solution team that communicates effectively and understands the impact each of these elements have on the success of the procurement. It would be a better training environment if the integrated solution team members could all train together, technical, program, financial, logistics, legal and contracting staff. Knowing this is not possible, the next best thing is to train them the same way. This instructor guide and material should be adaptable for training any member of the integrated solution team.

In closing, the most important aspect of a PBSA occurs in post-award, managing the results rather than managing the compliance. Of course, it does not work to have requirements for the contractor to comply, only to find that the requirements do not meet the mission need. This is the purpose of the integrated solutions team. But, there is a growing realization that for PBSA, the real work is in the post-award, performance management of the contract. The same integrated solutions team that planned the procurement, should be responsible for management of the outcome. The roles and responsibilities may slightly change, but performance management is the key to the overall success of PBSA. This is probably the most crucial cultural change that needs to be taught and implemented, for integrated solution teams to commit to the full PBSA implementation.

LIST OF REFERENCES

- Acquisition Reform Focus Group, May 13, 1997. Performance-Based Service Contracting (Depot & Installation). www.acq.osd.mil/dpap_archive/Docs/focus8.pdf (November 2005)
- Adam, Peter S., November 2003. Performance-Based Service Metrics in IT. Contract Management Magazine, November 2003, Volume 43, Issue 11, pp. 18-26
- An Interagency-Industry Partnership in Performance, date unknown. Seven Steps to Performance-Based Services Acquisition. <http://www.acqnet.gov> (November 2005)
- Army Material Command, October 13, 2004. Performance Based Service Acquisition (PBSA). <http://www.amc.army.mil/amc/rda/rda-ap/pbsa.html> (November 2005)
- Blake, Casey, May 2001. Cost-Effective PBSA, Contract Management Magazine, May 2001, Volume 41, Issue 5, pp. 28-32
- Brands, Margaret, February 2001. Another Look at Award Fee Contracts, Contract Management Magazine, February 2001, Volume 41, Issue 2, pp. 18-25
- Burman, Allan V., July 2000. Moving Backward to Get Ahead, Government Executive Magazine, July 2000, Volume 5 No. 3
- Burton, Robert A., September 7, 2004. Increasing the Use of Performance-Based Service Acquisition, Memorandum for Chief Acquisition Officer/Senior Procurement Officials, Executive Office of the President, Office of Management and Budget
- Cooley, R. E., RDML, USN, November 17, 2003. Change to Navy Acquisition Procedures Supplement (NAPS) Pertaining to Approval Requirements for Services Acquisition, Memorandum for Distribution, Department of the Navy, Office of The Assistant Secretary Research, Development and Acquisition
- Department of Defense, March 2001. *Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense*. http://www.dau.mil/pubs/misc/PBSA_GUIDEBOOK.pdf (November 2005)
- Department of Defense, June 24, 2004. Dispatch: Defense FAR Supplement – Commercial Procedures for Performance Based Service Contracts. <http://fedgovcontracts.com/pe04-111.htm> (November 2005)
- Department of Energy, August 2001. Performance-Based Contracting: Development of a Performance Work Statement, <http://www1.pr.doe.gov/acqguide/AGChapter37.htm> (November 2005)

Dickson, Bob, March 10, 2003. Federal Contract Law: Feds should use market research to refine IT plans, Post-Newsweek Media, Inc., <http://appserv.gcn.com/cgi-bin/udt/im.display.printable?client.id=gcn2&story.id=21329> (November 2005)

Dickinson, Tom, February 2001. A Case for Multiple Incentives, Contract Management Magazine, February 2001, Volume 41, Issue 2, pp. 10-13

Diernisse, Lisa, June 2003. Performance Metrics for Non-Mathematicians. Contract Management Magazine/June 2003, Volume 43, Issue 6, pp. 44-53

Edwards, Vernon J., February 2001. Award-Term: The Newest Incentive, Contract Management Magazine, February 2001, Volume 41, Issue 2, pp. 44-48

Edwards, Vernon J., February 2002. The Award-Term Incentive: A Status Report, Contract Management Magazine, February 2002, Volume 42, Issue 2. pp. 22 –27

FAR – Part 37 Service Contracting.
<http://farsite.hill.af.mil/reghtml/regsfar2afmcfars/fardfars/far/37.htm> (November 2005)

FAR Part 16: <http://www.arnet.gov/far/current/html/FARTOCP16.html> (November 2005)

Ferrara, Joe and Johnson, Collie, November 1995. Institutionalizing Integrated Product Teams, DOD's commitment to Change, Program Manager Magazine, November – December 1995.
<http://www.dau.mil/pubs/pm/pmpdf95/offsite1.pdf#search='integrated%20%20acquisition%20teams> (November 2005)

Gansler, J. S., April 5, 2000. Performance-Based Service Acquisition (PBSA), Memorandum for Secretaries of the Military Departments/Directors, Defense Agencies/Director, Defense Logistic Agency, The Under Secretary of Defense

GAO, June 2003. Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661

GAO, September 2002. Contract Management: Guidance Needed for Using Performance-Based Service Contracting. GAO-02-1049

Gardner, Steve W., June 1998. Source Selection in a Streamlined Acquisition Environment, Best Business Practices, PM: May-June 1998

Garrett, Gregory A., April 2002. Performance-Based Contracting Incentives: Myths, Best Practices, and Innovation. Contract Management Magazine/April 2002, Volume 42, Issue 4, pp. 14-19

Garrett, Gregory A., May 2005. Performance-Based Acquisition: The Real Essential Elements, Contract Management Magazine, May 2005, Volume 45, Issue 5, pp. 42-49

Gill, Jim, February 2002. Incentive Contracting, Assessing the Risks, Contract Management Magazine, February 2002, Volume 42, Issue 2, pp. 42-44

Government Performance Results Act of 1993 <http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html> (November 2005)

Hunt III, George R., September 2001. Comparing Source Selection Techniques. Contract Management Magazine/September 2001, Volume 41, Issue 9, pp. 10-16

Interagency Task Force on Performance-Based Service Acquisition, July 2003. Performance-Based Service Acquisition – Contracting for the Future, Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy

Jennings, John B. and Jackson, Jr., Clyde P., December 2002. PBSA at the Pentagon Contract Management Magazine/December 2002, Volume 42, Issue 12, pp. 26 –27

Kelly, John, February 2000. Using Teams in the Acquisition Process, Defense Systems Management College Program Management and Leadership Department (Teaching Note (PM 1), http://www.nwc.navy.mil/electives_list/EL547/Week2/PM1%20TN2.htm (November 2005)

Kelman, Stanley, August 8, 1997. Performance-Based Service Contracting (PBSC) Solicitation/Contract/Task Order Review Checklist, <http://www.arnet.gov/Library/OFPP/PolicyDocs/pbsckls.html> (November 2005)

Law, Bob, December 2001. Coming Full Circle. Contract Management Magazine/December 2001, Volume 41, Issue 12, pp. 18-23

Lawther, Wendell C., January 2002, Contracting for the 21st Century: A Partnership Model, New Ways to Manage Series, January 2002, The PricewaterhouseCooper Endowment, The Business of Government.

Mather, Chip and Costello, Ann, February 2001. A Program Manager's Guide to Realizing Marketplace Potential, Acquisition Solutions, Inc (Advisory), February 2001 <http://www.amc.army.mil/amc/rda/rda-ac/pbsc/adv0201.pdf> (November 2005)

Mather, Chip and Cotello, Ann, May 2001. An Innovative Approach to Performance-Based Acquisition: Using SOO, Acquisition Directions, Advisory, May 2001, Acquisition Solutions, Inc.

Market Research web-site <http://www.acqnet.gov/Library/PreSolicit/presolicit.html> (November 2005)

Martin, Lawrence L., November 2002. Making Performance-Based Contracting Perform: What the Federal Government Can learn from State and Local Governments, New Ways to Manage Series, IBM Endowment for The Business of Government, November 2002

Office of Federal Procurement Policy (OFPP), April 9, 1991. Policy Letter 91-2, Service Contracting, To Heads of Executive Agencies and Departments

Office of Federal Procurement Policy (OFPP), May 18, 1994. Policy Letter 93-1, Management Oversight of Service Contracting, To the Heads of Executive Departments and Establishments

Office of Federal Procurement Policy (OFPP), October 1998. A Guide to Best Practices for Performance-Based Service Contracting.

<http://www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html> (November 2005)

Owens, James G., December 2003. The Incentive-Term Arrangement: A New Strategy for Creating Value. Contract Management Magazine/December 2003, Volume 43, Issue 12, pp. 40-41

Panetta, Leon E. (Office of Management and Budget), May 19, 1994. Performance-Based Service Contracting, Memorandum for the Heads of Executive Departments and Agencies

Petersohn, Henry, April 2003. Performance-Based Service Contracting for Information Technology Requirements. Contract Management Magazine/April 2003, Volume 43/Issue 4

Performance-Based Contracting Desk Reference, Know net

<http://knownet.hhs.gov/acquisition/performDR/LAI/UnitOne/whatisa.htm> (November 2005)

Reed, Anne and Carter, Svetlana, May 2004. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Acquisition Directions Advisory, May 2004, Acquisition Solutions, Inc.

Reed, Anne and Welch, Bob, November 2005. Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management, Contract Management Magazine, November 2005, Volume 45, Issue 11, pp. 16-25

Reynolds, William E., December 2002. Performance-Based Contracting the USAID Experience. Contract Management Magazine/December 2002, Volume 42, Issue 12, pp. 40-47

Rogin, Ronne A., November 22, 2002. Performance-Based Service Contracting. Office of the Procurement Executive (Department of Treasury)

Rosenberger, Robert, December 2003. Performance-Based Contracting in a Non-Performance-Based World. Contract Management Magazine/ December 2003, Volume 43, Issue 12, pp. 42-48

Smith, M. K. (2005)'Bruce W. Tuckman – forming, storming, norming and performing in groups, the encyclopaedia of informal education, www.infed.org/thinkers/tuckman.htm. (November 2005) Last updated: March 14

Stokes, Allyson, undated. Market Research, NIH/Office of Acquisition Management and Policy, <http://oamp.od.nih.gov/ProgramNotes/Marketing/marketreserch.htm> (November 2005)

The Under Secretary of Defense (Gansler, J.S.), January 5, 2001. Incentive Strategies for Defense Acquisitions, General Policy Guidance, <http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/library/DODincentivesguide0201.pdf> (November 2005)

Weinstock, Matthew, August 15, 2002. Buying Teams, GovExec.com, <http://www.govexec.com/top200/02top/s1.htm> (November 2005)

Welch, Bob, September 2002. Commercial Keys to Performance-Based Acquisition. Contract Management Magazine/September 2002, Volume 42/Issue 9

Wright, J. L. Capt, USAF and Feeney, J. B. TSGT, USAF, September 1999. 10 Most Frequently Asked Questions About Performance-Based Service Contracts. Contract Management Magazine/September 1999, Volume 39/Issue 9, pp. 10-14

THIS PAGE INTENTIONALLY LEFT BLANK

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
Ft. Belvoir, Virginia
2. Dudley Knox Library
Naval Postgraduate School
Monterey, California
3. Catherine Kellington
NSCW, Carderock Division
Philadelphia, Pennsylvania
4. Joe McClure
NSWC, Indian Head Division
Indian Head, Maryland
5. E. Cory Yoder
Naval Post Graduate School
Monterey, California
6. Penny Kennedy
NSWC, Indian Head Division
Indian Head, Maryland