

CHANGE REQUEST COVER SHEET

Change Request Number: 09-66

Date Received: 5/12/2009

Title: Incentive Fee Contracting Checklist

Name: Larry Wyborski

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Policy OR Guidance: Guidance

Section/Text Location Affected: T3.2.4.D4:

Summary of Change: Add Appendix - Checklist for Incentive Fee Contracting.

Reason for Change: To augment the AMS Guidance addressing incentive fee contracting.

Development, Review, and/or Concurrence: FAA contracting offices, AGC.

Target Audience: FAA contracting personnel.

Potential Links within FAST for the Change: None.

Briefing Planned: No

ASAG Responsibilities: None

Potential Links within FAST for the Change: None.

Links for New/Modified Forms (or) Documents (LINK 1)

Links for New/Modified Forms (or) Documents (LINK 2)

Links for New/Modified Forms (or) Documents (LINK 3)

SECTIONS EDITED:

Procurement Guidance:

T3.2.4 - Types of Contracts

Types of Contracts

Section 4 : Incentive Contracts [\[Old Content\]](#)[\[New Content\]](#) [\[RedLine Content\]](#)

Procurement Guidance:

T3.2.4 - Types of Contracts [\[Old Content\]](#)[\[New Content\]](#) [\[RedLine Content\]](#)

SECTIONS EDITED:

Section 4 : Incentive Contracts

Old Content: Procurement Guidance:

T3.2.4 - Types of Contracts

Types of Contracts

Section 4 : Incentive Contracts

a. *General.*

(1) Incentive contracts are designed to obtain specific program objectives by establishing reasonable and attainable targets clearly communicated to the contractor, and by establishing incentives to motivate contractor performance and discourage inefficiency. The basic categories of incentive contracts are fixed-price incentive and cost-reimbursement incentive. Award-fee contracts are also a type of incentive contract.

(2) When predetermined, formula-type incentives on technical performance or delivery are included in a contract, increases in profit or fee are provided only for contractor achievement surpassing the targets, and decreases are provided for to the extent that such targets are not met. The incentive increases or decreases are applied to performance targets rather than minimum performance requirements.

b. *Cost Incentives.*

(1) Most incentive contracts include only cost incentives, which take the form of a profit or fee adjustment formula and are intended to motivate the contractor to effectively manage costs. No incentive contract should provide for other incentives without also providing a cost incentive (or constraint).

(2) Excluding cost-plus-award-fee contracts, incentive contracts include a target cost, a target profit or fee, and a profit or fee adjustment formula that (within the constraints of a price ceiling or minimum and maximum fee) provides:

(a) Actual cost that meets the target will result in the target profit or fee;

(b) Actual cost that exceeds the target will result in downward adjustment of target profit or fee; and

(c) Actual cost that is below the target will result in upward adjustment of target profit or fee.

c. Performance Incentives.

(1) Performance incentives may be considered for specific product characteristics (e.g., range, speed, maneuverability) or other specific elements of the contractor's performance. These incentives should relate profit or fee to results achieved by the contractor, compared with specified targets.

(2) To the extent practicable, positive and negative performance incentives should be considered for service contracts involving objectively measurable tasks when quality of performance is critical and incentives are likely to motivate the contractor.

(3) Technical performance incentives may involve a variety of specific characteristics that contribute to the overall performance of the end item. The incentives on individual technical characteristics should be balanced so that no one of them is exaggerated to the detriment of the overall performance of the end item.

(5) Performance tests and/or assessments of work performance are generally essential in order to determine the degree of attainment of performance targets. The contract should be as specific as possible in establishing test criteria (such as testing conditions, instrumentation precision, and data interpretation) and performance standards (such as the quality levels of services to be provided).

(6) Because performance incentives present complex problems in contract administration, the CO should negotiate incentives in full coordination with Government engineering and pricing specialists.

(7) It is essential that the Government and contractor agree explicitly on the effect that contract changes (e.g., pursuant to the Changes clause) will have on performance incentives.

(8) The CO must exercise care, in establishing performance criteria, to recognize that the contractor should not be rewarded or penalized for attainments of Government-furnished components.

d. Delivery Incentives.

(1) Delivery incentives should be considered when improvement from a required delivery schedule is a significant Government objective. It is important to

determine the Government's primary objectives in a given contract (*e.g.*, earliest possible delivery or earliest quantity production).

(2) Incentive arrangements on delivery should specify the application of the reward-penalty structure in the event of Government-caused delays or other delays beyond the control, and without the fault or negligence, of the contractor or subcontractor.

e. *Structuring Multiple-Incentive Contracts.* A multiple-incentive arrangement should:

(1) Motivate the contractor to strive for outstanding results in all incentive areas; and

(2) Compel trade-off decisions among the incentive areas, consistent with the Government's overall objectives for the acquisition. Because of the interdependency of the Government's cost, the technical performance, and the delivery goals, a contract that emphasizes only one of the goals may jeopardize control over the others. Because outstanding results may not be attainable for each of the incentive areas, all multiple-incentive contracts must include a cost incentive (or constraint) that operates to preclude rewarding a contractor for superior technical performance or delivery results when the cost of those results outweighs their value to the Government.

New Content: Procurement Guidance:

T3.2.4 - Types of Contracts

Types of Contracts

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f. *Checklist for Incentive Contracts.*

Pre-award:

- Was a review of incentive fee contracting at AMS Procurement Guidance T3.2.4.A.4 a.-e. completed?
- Is it likely the incentive affects cost, schedules or quality in a positive way?
- Are there potential unintended negative consequences in the incentive on costs, schedules or quality?
- Is the incentive challenging and attainable?

- Is the incentive affordable for FAA?
- Are resources available to properly formulate and monitor the contract?
- Can risks and cost benefits be assessed?
- Can incentives be objectively measurable?
- Do incentives correlate to the desired results?
- What form should the incentive take?
- Was there market research and open communications with vendors in developing the incentive?
- Are there evaluation factors related to the incentive?
- Are multiple incentives (i.e., combination of cost, performance/delivery, or quality incentives) appropriate?
- Does the incentive fee plan provide clear direction on how the incentive fee will be applied and monitored?
- What is appropriate contract type - CPIF or FPI?
- Are there any goals where multiple incentives conflict?
- Does the incentive have the requisite limits?

Post-award:

- Is the incentive effective?
- Do incentive assumptions need to be reassessed?
- Are contractors being rewarded for simply meeting contract requirements?
- Is the incentive focused on the objective?
- How effective are the tools and processes being used to monitor the incentive?
- Is there a need to revise the incentive due to changes in requirements or contract developments?

Red Line Content: Procurement Guidance:

T3.2.4 - Types of Contracts

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T3.2.4 - Types of Contracts (Revision 5, July 2008)

Old Content: Procurement Guidance:

T3.2.4 - Types of Contracts (Revision 5, July 2008) New Content: Procurement Guidance:

T3.2.4 - Types of Contracts Red Line Content: Procurement Guidance:

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