

Award and Incentive Fee Contracts

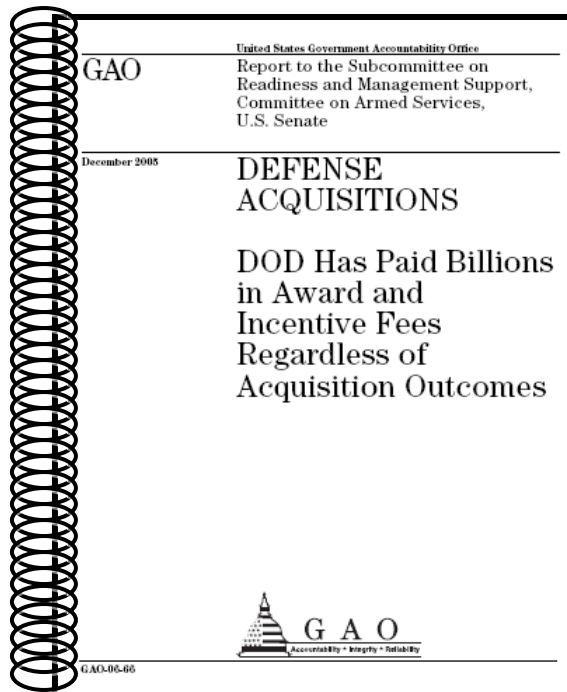
GAO's Findings

Background

Study Proposal

Study Findings

Recommendations



Why GAO Did This Study

GAO was asked to determine whether award and incentive fees have been used effectively as a tool for achieving DOD's desired acquisition outcomes. To do this, GAO selected a probability sample of 93 contracts from the study population of 597 DOD award- and incentive-fee contracts that were active and had at least one contract action valued at \$10 million or more from fiscal year 1999 through 2003

Incentive Contracts Research Overview Briefing
Defense Acquisition University (DAU), 17 May 2007

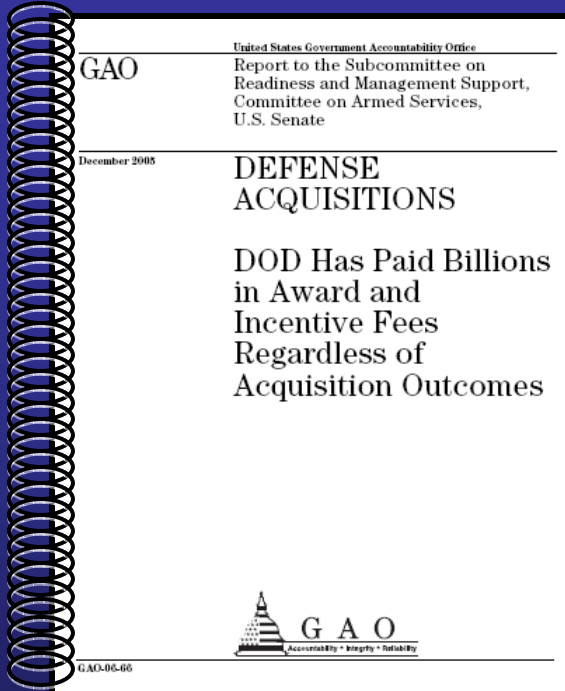


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The PROBLEM : GAO Found Award/Incentive Fee Generally Ineffective



What GAO Found

The power of monetary incentives to motivate excellent contractor performance and improve acquisition outcomes is diluted by the way DOD structures and implements incentives. While there were two examples in our sample in which the Missile Defense Agency attempted to link award fees directly to desired acquisition outcomes, such as demonstrating a capability within an established schedule, award fees are generally not linked to acquisition outcomes. As a result, DOD has paid out an estimated \$8 billion in award fees to date on the contracts in our study population, regardless of outcomes. The following selected programs show this disconnect.

Program Performance and Award-Fee Payments on Selected DOD Development Programs

	Comanche reconnaissance attack helicopter	F/A-22 Raptor tactical fighter aircraft	Joint Strike Fighter tactical fighter aircraft	Space-Based Infrared System High
Research and development cost increase over baseline	\$3.7 billion 41.2 percent	\$10.2 billion 47.3 percent	\$10.1 billion 30.1 percent	\$3.7 billion 99.5 percent
Acquisition cycle time increase over baseline	33 months 14.8 percent	27 months 13.3 percent	11 months 5.9 percent	More than 12 months
Percentage and total award fee paid to prime systems contractor (adjusted for rollover) ^a	85 percent \$202.5 million	91 percent \$848.7 million	100 percent \$494.0 million	74 percent \$160.4 million

Sources: DOD submissions to GAO, contract documentation, and GAO-05-301 (data); GAO (analysis).

^aWhen calculating the percentage of award fee paid (i.e., percentage of award fee paid = total fee paid to date / (total fee pool - remaining fee pool)), we included rolled-over fees in the remaining fee pool when those fees were still available to be earned in future evaluation periods.

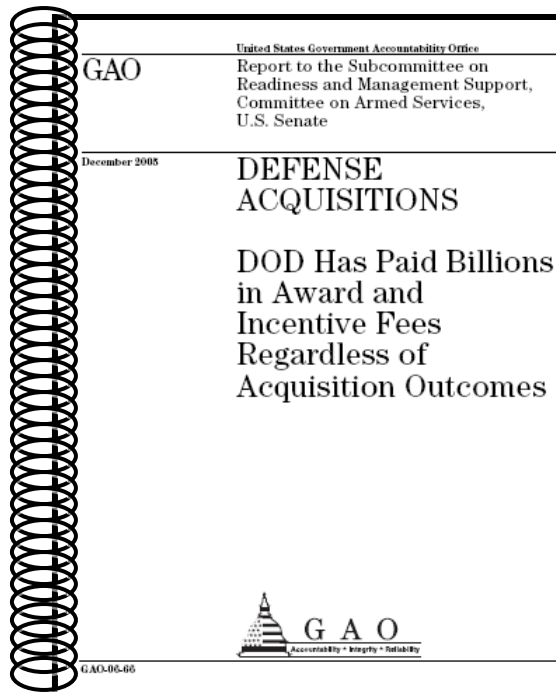
What GAO Recommends

GAO recommends that DOD improve its use of fees by specifically tying them to acquisition outcomes in all new award- and incentive-fee contracts, maximizing contractors' motivation to perform, and collecting data to evaluate the effectiveness of fees. In its comments on a draft of this report, DOD concurred or partially concurred with all of the recommendations.

Despite paying billions in fees, DOD has little evidence to support its belief that these fees improve contractor performance and acquisition outcomes. The department has not compiled data, conducted analyses, or developed performance measures to evaluate the effectiveness of award and incentive fees. In addition, when contracts have utilized different fee strategies to focus the contractor's attention on specific acquisition outcomes, contracting officials have stated that DOD has few mechanisms to share lessons learned and innovative practices outside the local level.

Award and Incentive Fee Contracts

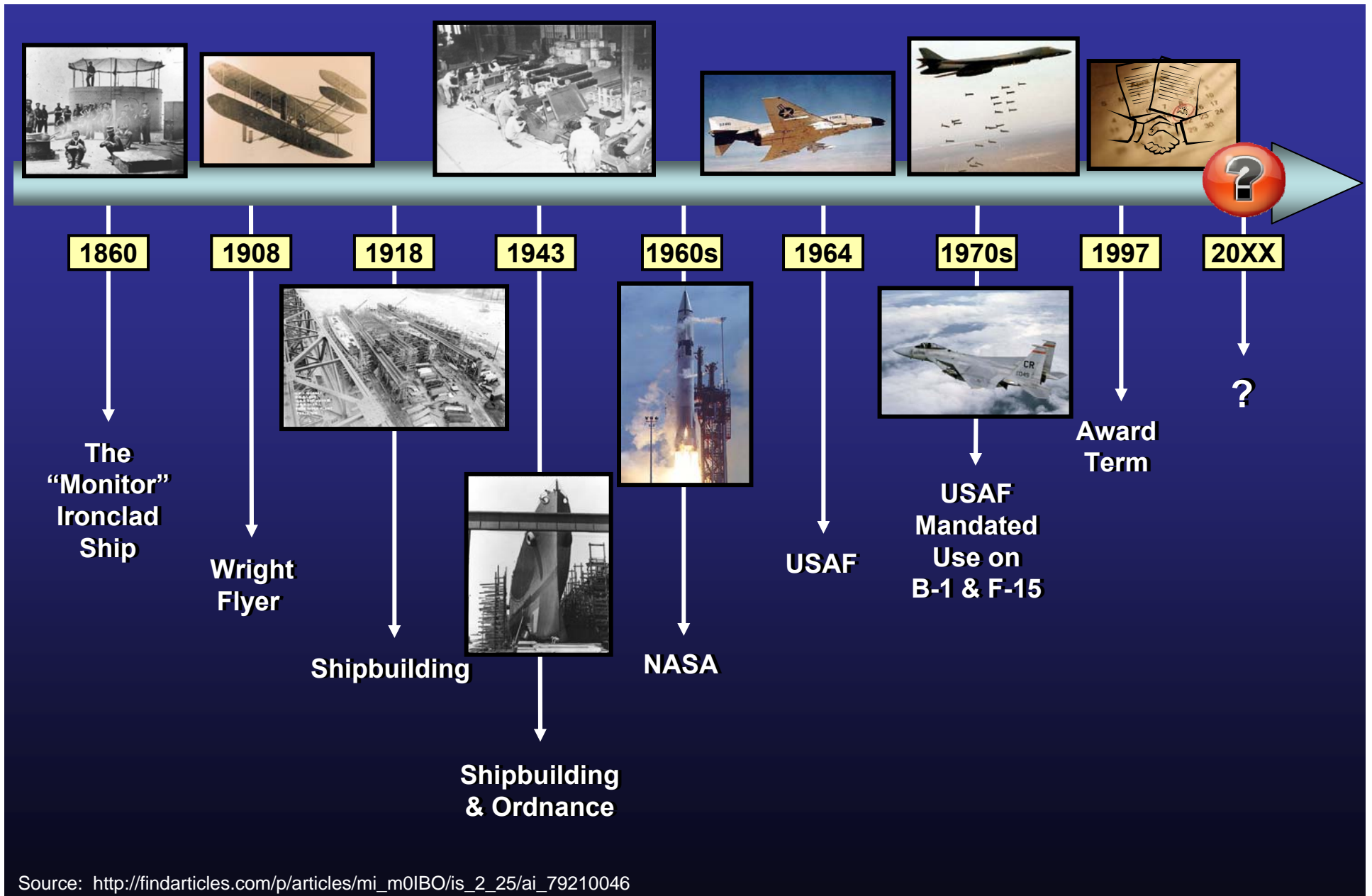
Background



Why GAO Did This Study

GAO was asked to determine whether award and incentive fees have been used effectively as a tool for achieving DOD's desired acquisition outcomes. To do this, GAO selected a probability sample of 93 contracts from the study population of 597 DOD award- and incentive-fee contracts that were active and had at least one contract action valued at \$10 million or more from fiscal year 1999 through 2003

Incentive Contracts Have Been Used in Various Forms for Some Time



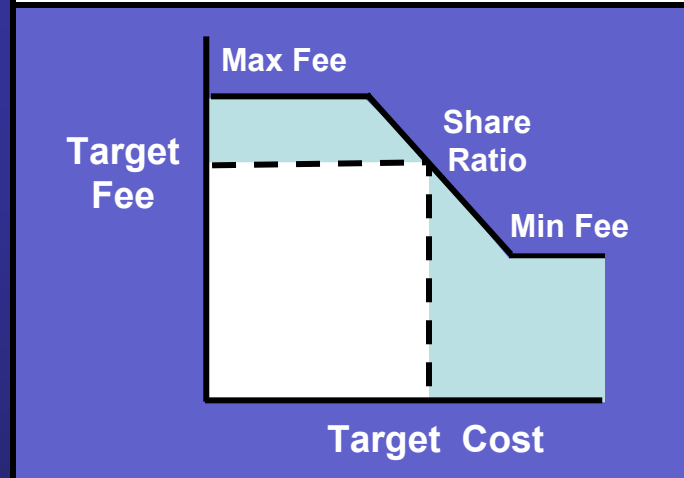
Simplified View of Incentive Contracts

INCENTIVE CONTRACTS

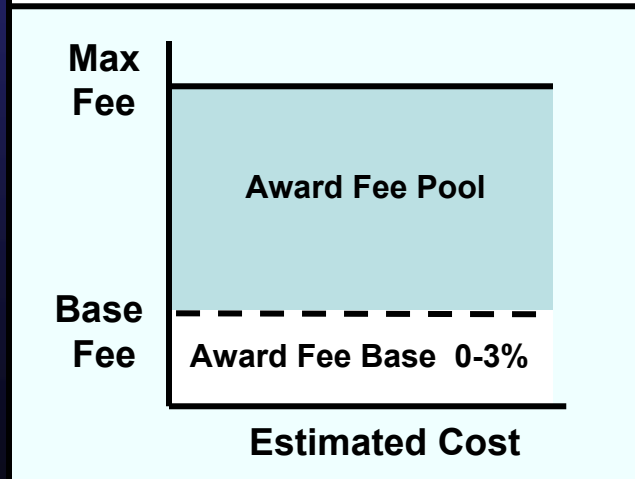
(FAR 16.401)

- Designed to obtain specific acquisition objectives
- Establishes reasonable and attainable targets that are clearly communicated
- Includes appropriate incentive arrangements designed to:
 - Motivate contractor efforts that might not otherwise be emphasized
 - Discourage contractor inefficiency and waste

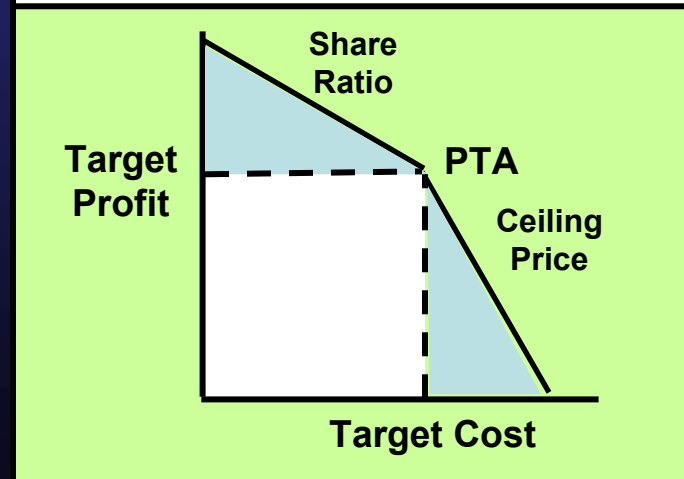
Cost Plus Incentive Fee



Cost Plus Award Fee



Fixed Price Incentive Fee



Incentive Contracts: A Sampling of Recent Assessments and Guidance



Army (ACA) Award Fee Board Member Guide (September 2003)



Army (ACA) Award Fee Contracts Guide (September 2003)



Air Force (AFMC) Award Fee & Award Term Guide, Dec 2002



Army (ACA) Cost & Price Analysis Handbook, February 2004



Air Force (Secretary of the Air Force) Contract Incentives Policy 06A-003 - April 04, 2006



Army (U.S. Army Audit Agency) - Best Practices for Using Award Fees, Audit Report AA 01-169, February 2001



Air Force Award Fee Guide - March 2002



2001 Incentive Strategies for Defense Acquisitions Guide



DCAA Contract Audit Manual, March 2006



OUSD Award Fee Contracts (FAR 16, DFARS 215, DFARS 216) Policy Memo, March 29, 2006



DFARS SUBPART 216.4--INCENTIVE CONTRACTS (Revised March 21, 2006)



2006 Secretary of the Air Force for Acquisition Directorate (SAF/AQX) Contract Incentives Study



USAID Guidance for Award Fee Contracting



Air Force Space Command's Space & Missile Center (SMC) 2006 Draft Incentives Guide

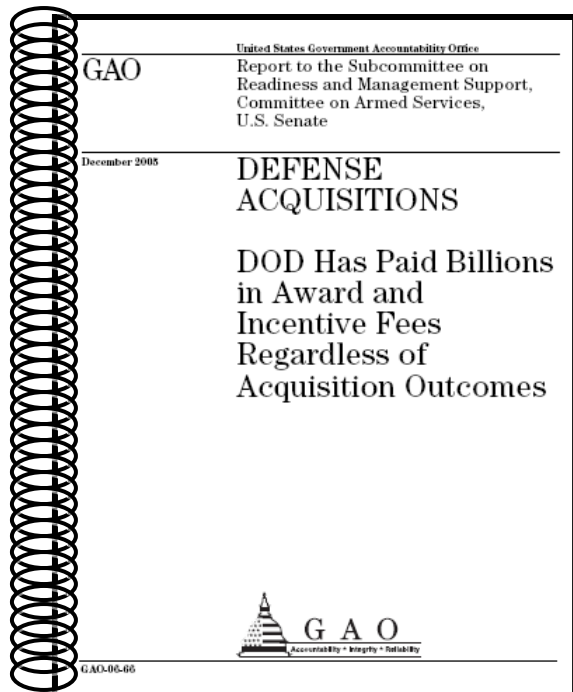


Air Force (SAF/AQC) Award Term/Incentive Options Guide - January 2003

2007 National Defense Authorization Act, PUBLIC LAW 109-364—OCT. 17, 2006, SEC. 814

Award and Incentive Fee Contracts

Study Proposal



Why GAO Did This Study

GAO was asked to determine whether award and incentive fees have been used effectively as a tool for achieving DOD's desired acquisition outcomes. To do this, GAO selected a probability sample of 93 contracts from the study population of 597 DOD award- and incentive-fee contracts that were active and had at least one contract action valued at \$10 million or more from fiscal year 1999 through 2003

Research Problem Statement & Objective

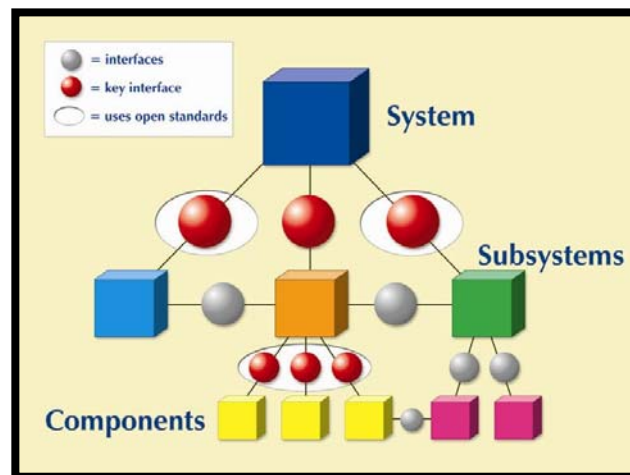
Problem Statement

- The Implementation of Award/Incentive Fee contracts in DoD are not producing the desired/intended outcomes. In some cases, the Acquisition community may not be implementing Award Fee/Incentive contracts, correctly.

Research Objective

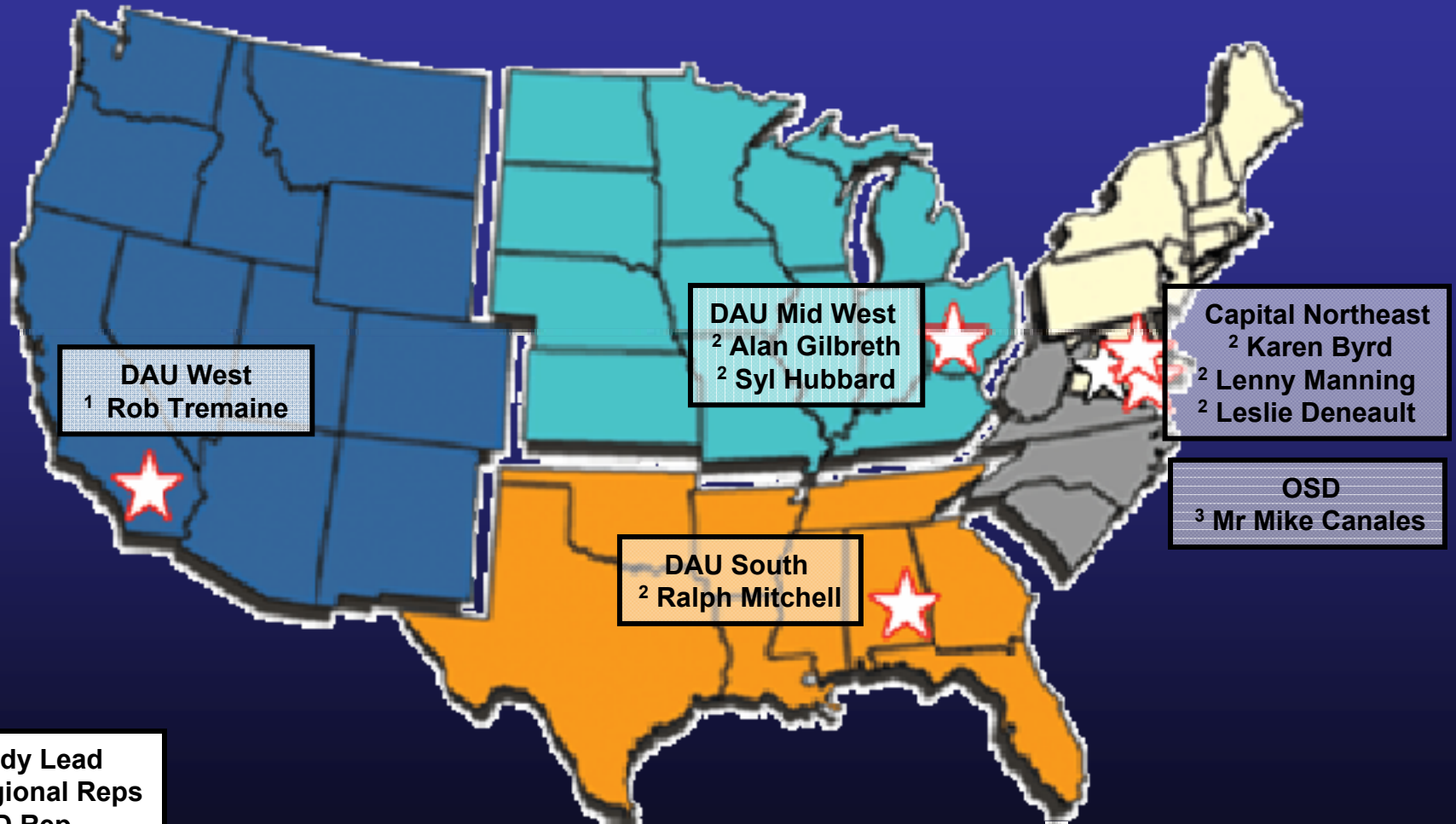
- DAU needs to understand where Award Fee/Incentive Fee made a favorable difference and why.

The Teams' Outcome Will Be A Research Project Rather than a Re-claima to the GAO Findings





Multi-Regional Award/Incentive Fee Study Team



Research Assumptions

Award/Incentive Fee Assumptions:

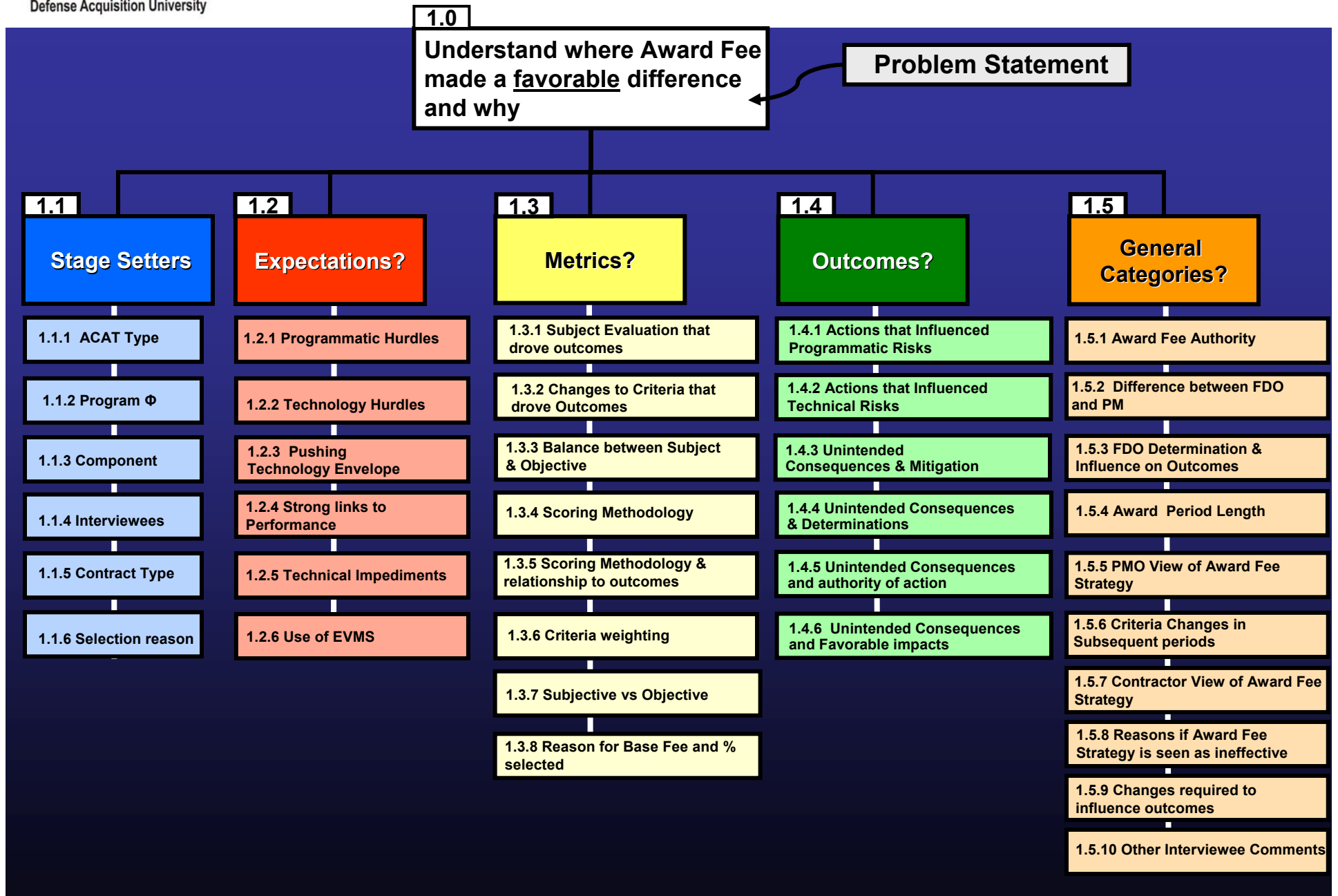
- 1. Improved Contractor Performance Has Not Always Been Achieved Through the Use Of Award Fee/Incentive Fee Contracts.**
- 2. GAO Has Identified Numerous Award/Incentive Fee Contracts that Have Cost the Government Millions Without Always Producing Desired Contractual Outcomes.**
- 3. In DoD Contracting, Award/Incentive Fee Contracts Can Be Powerful Tools to Favorably Influence Contractor Performance in conjunction with good acquisition fundamentals.**
- 4. Empirical Evidence/Measurable Results Should Play a Pivotal Role In Award/Incentive Fee Determinations.**
- 5. GAO Conclusions on the Ineffectiveness Of Award/Incentive Fee Contracting May Be A Result Of Certain Ineffective Practices that Could Be Undermining Policy**

Exchange with the GAO

Met with Mr Tom Denomme and Mr Ron Schwenn on 20 Jun 06 at GAO HQ in DC— *very informative exchange—their comments:*

- **Research effort looked for connection between AF/IF and favorable outcomes but they found little evidence to substantiate relationship**
- **Process seemed to be well understood—no chronic problems**
- **Found no issues with Policy**
- **Service Guidelines governing implementation of AF/IF is different—should it be?**
- **Award Fee sometimes drives requirements creep**
- **Performance outcomes were sometimes unrealistic--contractor couldn't deliver**
- **Surprisingly, TPMs didn't seem to play much into the equation**
- **GAO did not evaluate weighting methodology--would it have made a difference?**
- **In some cases, AF was seen and used by PM as a “Risk Management” device—is that a bad idea?**
- **FDO's final evaluation letters don't contain much substantiation—why is it so general?**
- **The contractor isn't encouraged to pursue alternate COAs especially if they or the government run into [anticipated] programmatic obstacles**

Survey Approach Used A WBS Approach





Data Collection Instrument

INCENTIVE FEE and AWARD FEE SURVEY QUESTIONS

SECTION I. PROGRAMMATICS

1. What best describes your program?
 - a. ACAT I
 - b. ACAT IA
 - c. ACAT II
 - d. ACAT III
 - e. Other
2. What best characterizes your program?
 - a. System Development & Demonstration
 - b. Production and Deployment
 - c. Operations & Support
 - d. Other
3. What is your service component?
 - a. Army
 - b. Navy
 - c. Air Force
 - d. Other
4. What is your principle role?
 - a. Program Manager/Director/Project Manager
 - b. Contracting Officer
 - c. Systems Engineer
 - d. Other
5. Did you choose an incentive fee or award fee?
 - a. Incentive Fee
 - b. Award Fee
 - c. Award Fee with Incentives
 - d. Other
6. What were the principal reasons you chose an Incentive Fee or Award Fee (see question 5)?
7. If you chose an Incentive Fee, go to Section II.
8. If you chose an Award Fee, go to Section III.

SECTION II: INCENTIVE FEE (defined as CPIF and FPIF type contracts)

A. EXPECTATIONS

1. What incentives did you use?
2. Why did you choose these incentives?
3. Did the incentives you chose create any unintended consequences?
4. If you faced funding issues, what actions did you take as a contractor to help sustain favorable performance outcomes?

B. METRICS

1. How did you determine the minimum performance metrics that motivated the contractor to perform?
2. What metric(s) did you use to incentivize the contractor? What methodology did you use?
3. How did your methodology lead to favorable performance outcomes?

C. OUTCOMES

1. Did the contractor stay within the contract? If not, what were the outcomes in terms of performance?
2. If as a result of the incentives used did you observe any unintended consequences that mitigated those consequences in future periods?
3. In retrospect, which of the incentives used did you believe most effectively overcome unintended consequences and improve performance outcomes?

D. GENERAL CATEGORY

1. How does your organization view your Award Fee strategy?
 - a. Very effective in motivating the contractor
 - b. Moderately effective in motivating the contractor
 - c. Somewhat in motivating the contractor
 - d. Not very effective in motivating the contractor
2. If you answered "D" above, what is the principle reason your organization might view your Award Fee as "not very effective"?
 - a. Not everyone is well-trained on Incentive Fees
 - b. Not everyone is aware of the contract terms and developing the incentives.
 - c. Other (explain)
3. How does your contractor view your Award Fee strategy?
 - a. Very Effective
 - b. Moderately effective
 - c. Not very effective
4. In retrospect, what changes, if any, would you make to influence performance outcomes even more?
 - a. None—it worked just fine
 - b. More vigorously apply . . .
5. What other comments do you have concerning your Award Fee strategy?

SECTION III. AWARD FEE (Defined as CPAF and FPIC)

A. EXPECTATIONS

1. What were your primary programmatic hurdles?
2. What were your primary technology hurdles?
3. Where are you pushing the technology envelope?
4. What were your award fee objectives that created any unintended consequences?
5. How did you establish the criteria used in the award fee determination?
6. What programmatic and/or technical impediments were reconciled during the Award Fee periods?
7. Did you and, if so, how did you use EVMS to influence performance outcomes?
8. If you faced funding issues, what Award Fee actions did you take as a contractor to help sustain favorable performance outcomes?

B. METRICS

1. What were your subjective evaluation criteria that influenced the contractor's performance?
2. What changes did you make to the award fee criteria that drove favorable outcomes and why?
3. How did you determine the balance/share between programmatic and technical performance outcomes?
4. What was your scoring methodology?
5. How did your scoring methodology (and rating determination) influence performance outcomes?
6. What criteria did you weigh more heavily that had the most favorable impact on performance outcomes?
7. What did you weigh evenly and why did this weigh evenly?
8. Could you have replaced any of the subjective criteria with objective criteria that would have had favorable impacts on performance outcomes?
9. If you used a Base Fee, why did you use it and what were the results?

C. OUTCOMES

1. What specific Award Fee actions did you take that influenced performance outcomes?
 - a. Programmatic risks?
 - b. Technical risks?
2. In retrospect, what worked consistently in the Award Fee periods to influence favorable performance outcomes?
 - 3a. If your expected performance outcomes led to unintended consequences, how did you mitigate those unintended consequences?
 - 3b. Did those unintended consequences have an impact on performance outcomes?
 - 3c. Did you have the authority to change or eliminate a result of unintended consequences?
 - 3d. In retrospect, what methods did you find that worked to overcome unintended consequences and still promote favorable performance outcomes?

D. GENERAL CATEGORY

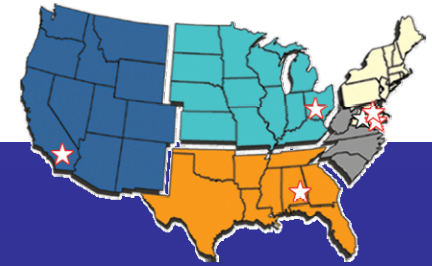
1. Who made the final Award Fee determination?

Under Configuration Control: 2006 0702 Version 6

2. If the Award Fee Determination Official (FDO) was different from the Program Manager/Program Director, was the Award Fee decision different than what the PM recommended? If so, why?
3. How did the FDO determination favorably influence the expected outcome?
4. If earlier Award Fee decisions realized less tangible outcomes, what subjective or objective criteria/weighting were changed in subsequent award fee periods to influence favorable performance outcomes and why?
5. What is the length of time between your award fee periods? Why did you select that period of time? Were they too short or too long?
6. How does your organization view your Award Fee strategy? **Please elaborate after your response.**
 - a. Very effective in motivating the contractor
 - b. Moderately effective in motivating the contractor
 - c. Somewhat effective in motivating the contractor
 - c. Not very effective in motivating the contractor.
7. If you answered "D" above, what is the principle reason your organization might view your Award Fee as "not very effective"? **Please elaborate after your response.**
 - a. Not everyone is well-trained on Award Fee
 - b. Not everyone is aware of the complicating factors that are considered in the decision equation.
 - c. Other
8. How does your contractor view your Award Fee strategy?
9. In retrospect, what changes, if any, would you make to the Award Fee Plan to influence performance outcomes even more?
10. What has been your Contractor response to your determinations?
11. What other comments do you have concerning Award Fee?



Incentive Contract Study Interviews By Region

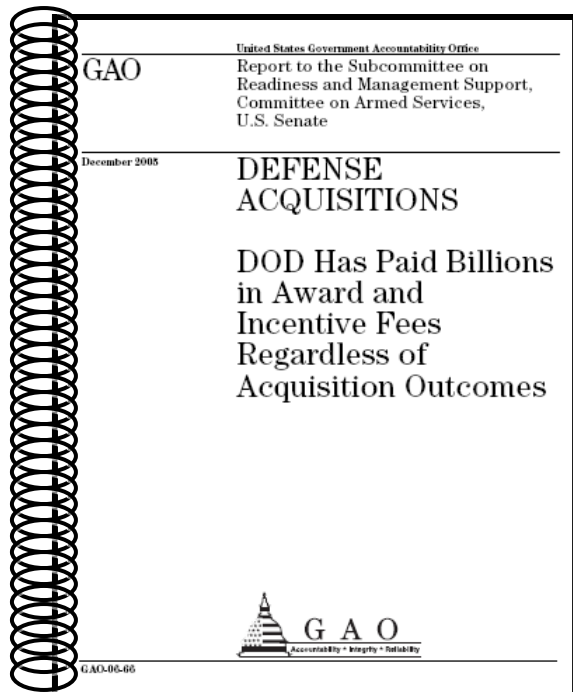


	West Region		Mid-West		South		CNE/MA
+	SBIRS High	+	B-2	+	Kinetic Weapons	+	MDA Sensors
+	GPS	+	C-17			+	MDA Targets and Countermeasures
+	RAIDRS	+	F-15			+	MDA Top Level
+	AEHF	+	F-16			+	MMA
+	STSS	+	Global Hawk			+	MDA C2BMC
+	AFSCN	+	Global Transportation Network			+	E2C
		+	AMC Contractor Tactical Terminal Operations			+	MH-60
		+	FCS			+	AV-8
		+	Total Integrated Engine Revitalization			+	EFV
		+	Biological Detection System				

+ Completed Interviews

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Study Findings



Why GAO Did This Study

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1. Strongly Communicate Expectations and Continually Provide Feedback

- Establish Open dialogue at both Junior and Senior levels
- Ensure that Contractor is never surprised by what they get
- Employ “Emphasis letters” or “Barometer reports” during award periods to stress the importance of certain “outcomes” or “events”
- Conduct Monthly reviews
- Set and Maintain Unequivocal Expectations
- Enforce a strongly prepared and focused evaluation board that also garners upper management support

Stage Setters

Expectations?

Metrics?

Outcomes?

General Categories?

1.1.1 ACAT Type

1.2.1 Programmatic Hurdles

1.3.1 Subject Evaluation that drove outcomes

1.4.1 Actions that influenced Programmatic Risks

1.5.1 Award Fee Authority

- Ensure that Contractor is never surprised by what they get

1.1.2 Program #

1.2.2 Technology Hurdles

1.3.2 Changes to Criteria that drove Outcomes

1.4.2 Actions that influenced Technical Risks

1.5.2 Similarities between FDO and PM

- Employ “Emphasis letters” or “Barometer reports” during award periods to stress the importance of certain “outcomes” or “events”

1.1.3 Component

1.2.3 Technology Envelope

1.3.3 Relationship between Subjective & Objective

1.4.3 Unintended Consequences & Mitigation

1.5.3 Similarities between FDO & Influence on Outcomes

1.1.4 Interviewees

1.2.4 Strong links to Performance

1.3.4 Scoring Methodology

1.4.4 Unintended Consequences & Determinations

1.5.4 Award Period Length

- Conduct Monthly reviews

1.1.5 Contract Type

1.2.5 Technical Impediments

1.3.5 Scoring Methodology & relationship to outcomes

1.4.5 Unintended Consequences and authority of action

1.5.5 PMO View of Award Fee Strategy

- Set and Maintain Unequivocal Expectations

1.1.6 Selection reason

1.2.6 Use of EVMS

1.3.6 Criteria weighting

1.4.6 Unintended Consequences and Favorable impacts

1.5.6 Criteria Changes in Subsequent periods

- Enforce a strongly prepared and focused evaluation board that also garners upper management support

1.3.7 Subjective vs Objective

1.5.7 Contractor View of Award Fee Strategy

1.5.8 Contractor View of Award Fee Strategy is seen as ineffective

1.5.9 Changes required to influence outcomes

1.5.10 Other Interviewee Comments



2. Use Relevant, Achievable and Enduring Measures Within an Evaluation Period

- “Hard-wire” measures to achievable outcomes
- Employ technical performance goals and cost controls
- Jointly develop incentive criteria with contractors since they tend to be more strongly correlated to outcomes
- Select Key outcomes that make evaluation periods more enduring by creating a bridge between one award fee period and the next
- Use subjective measures to drive critical processes, management responsiveness, and certain behavior
- Institute a combined objective and subjective measures strategy



3. Use Base Fee in Award Fee Contracts

- Set aside a portion of the award fee funding for “best efforts”
- Set aside a portion of the award fee funding to give ample flexibility for “excellence”
- Factor in the view of Senior defense industry personnel—they welcomed the use of base fee to better delineate the difference between “best efforts” (e.g. fee) and “excellence” (e.g. award)

1.1	1.2	1.3	1.4	1.5
Stage Setters	Expectations?	Metrics?	Outcomes?	General Categories?
1.1.1 ASAT Type	1.2.1 Programmatic Hurdles	1.3.1 Subject Evaluation that drove outcomes	1.4.1 Actions that Influenced Programmatic Risks	1.5.1 Award Fee Authority
1.1.2 Program #	1.2.2 Technology Hurdles	1.3.2 Changes to Criteria that drove Outcomes	1.4.2 Actions that Influenced Technical Risks	1.5.2 Difference between FDO and PM
1.1.3 Component	1.2.3 Positioning Technology Capabilities	1.3.3 Balance between Subjective & Objective	1.4.3 Unintended Consequences & Mitigation	1.5.3 Determination & Influence on Outcomes
1.1.4 Interviewees	1.2.4 Programmatic Performance	1.3.4 Scoring Methodology	1.4.4 Unintended Consequences & Determinations	1.5.4 Award Period Length
1.1.5 Occurrence	1.2.5 Programmatic Success	1.3.5 Programmatic relationship to outcomes	1.4.5 Programmatic and authority of action	1.5.5 PMO View of Award Fee Strategy
1.1.6 Selection Reason	1.2.6 Use of Events	1.3.6 Criteria weighting	1.4.6 Programmatic and Favorable impacts	1.5.6 Subsequent periods
		1.3.7 Subjective vs Objective		1.5.7 Award Fee Strategy
		1.3.8 Reason for Base Fee or % selected		1.5.8 Reasons if Award Fee Strategy is seen as ineffective
				1.5.9 Changes required to influence outcomes
				1.5.10 Other interviewee Comments



4. Institute Training and Leverage Experienced Personnel to the Maximum Extent

- Incorporate the practical experience of many already embedded talented personnel
- Establish formalized instruction and continue to coach personnel on use of incentives
- Require performance monitors to observe other assessments to help them appreciate the depth of evaluations
- Encourage “Specialty” training for key personnel who administer incentive contracts

Stage Setters	Expectations?	Metrics?	Outcomes?	General Categories?
1.1.1 ACAT Type	1.2.1 Programmatic Hurdles	1.3.1 Subject Evaluation that drove Outcomes	1.4.1 Actions that influenced Outcomes	1.5.1 Award Fee Authority
1.1.2 Program ID	1.2.2 Technology Hurdles	1.3.2 Changes to Criteria that drove Outcomes	1.4.2 Actions that influenced Technical Risk	1.5.2 Difference between FDO and PM
1.1.3 Component	1.2.3 Pushing Technology Envelope	1.3.3 Balance between Subject & Objective	1.4.3 Unintended Consequences & Mitigation	1.5.3 FDO Determination & Influence on Outcomes
1.1.4 Interviewees	1.2.4 Strong links to Performance	1.3.4 Scoring Methodology	1.4.4 Unintended Consequences & Determinations	1.5.4 Award Period Length
1.1.5 Contract Type	1.2.5 Technical Impediments	1.3.5 Subjective vs Objective relationship to outcomes	1.4.5 Unintended Consequences and authority of action	1.5.5 Contractor View of Award Fee Strategy
1.1.6 Selection reason	1.2.6 Use of EVMS	1.3.6 Criteria weighting	1.4.6 Unintended Consequences and Favorable impacts	1.5.6 Criteria Changes in Subsequent periods
		1.3.7 Subjective vs Objective		1.5.7 Contractor View of Award Fee Strategy
		1.3.8 Selection for incentive contracts		1.5.8 Contractor View of Award Fee Strategy is seen as ineffective
				1.5.9 Changes required to influence outcomes
				1.5.10 Other interviewee Comments



5. Carefully Weigh Industry Concerns

“ Government Construction of the Award Fee Plan (Including Metrics, Incentives, etc.) May Not Link With the Offeror’s Proposed Solution Or Motivations

- **Award Fee Sometimes isn’t Proper Contract Type to Achieve Program Outcomes**
- **In Some Cases, the Intended Goal(s) of Award Fee Contracts are Unclear**
- **Contracts Without Base Fee Can Cause Problems**
- **In Some Cases, the Government Does Not Follow Its Own Policies On Award Fee**
- **On Occasion, Award Fee Evaluation Criteria Are Poorly Explained Or Justified and Communication of Award Fee Goals and Criteria Are Not Clearly Explained**
- **It Is Difficult to Establish the Relationship Between Awards For month-to-month Activities to the Goals Of A Multiple-Year Program. The Linkage Is Not Always Apparent**
- **Administration of Award Fee Criteria Can Change Post Award and Create Problems During Contract Execution**
- **Government May Not Manage Or Evaluate Award Fee Criteria as Agreed /Planned**
- **Post-award administration of Award Fee contracts is time and resource intensive**

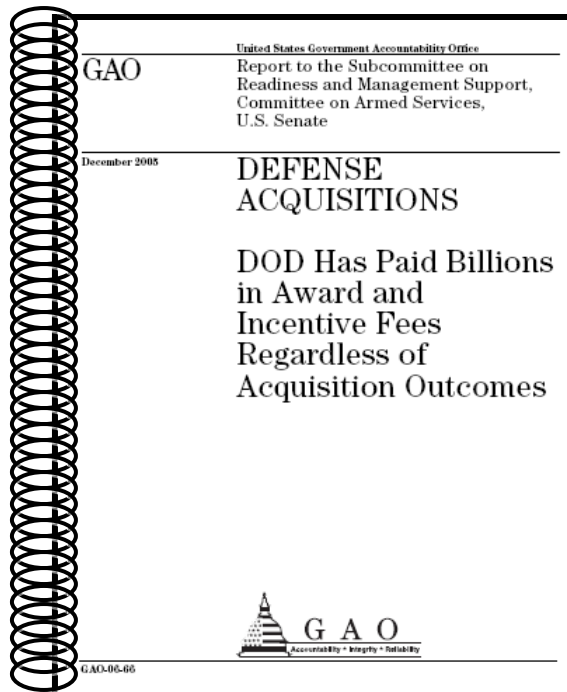


5. Carefully Weigh Industry Concerns

- Government Personnel Are Not Adequately Trained in Managing Award Fee Contracts
 - Desired Outcomes Are Not Always Driven By The Award Fee Because Of Insufficient Funds Available and Subjectivity Of The Final Evaluation.
 - Inconsistency In the Timing Of the Award In Line With The Evaluation Criteria And Uncertainty Of Expected Profitability Before Award Pose Additional Problems
 - Contracting Parties /Stakeholders have Different Perceptions of Award Fees
- Purposes**
- In Some Cases, There Is Government Failure to Understand the Economics of Defense Contracting and Its Impact On Government Contractors
 - From Time to Time, There is Inappropriate Use Of Award Fee Contracts
 - Award fee is not targeted at creating fair shareholder value (or financial advantage to the private company) in line with actual performance. Metrics are sometimes not meaningful and are "fuzzy" in line with "fuzzy" requirements. Sometimes they are too subjective and do not measure outcomes that are sought by DoD
 - Award fees that require the contractor to exceed the requirements of the contract motivate requirements creep or "goldplating"

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Recommendations



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**Incentive Contracts Research Overview Briefing
Defense Acquisition University (DAU), 17 May 2007**

Recommendations

- **Maximize two existing Continuous Learning Modules (CLMs) to help guide organizations with their incentive selection and subsequent pathway.**
 - **Contractual Incentives (CLC-018):** focuses on balance between government and industry goals and objectives in crafting an effective incentive strategy
 - **Provisional Award Fees (CLC-034):** addresses the new 2003 rule that permits award fee payments to be made anytime prior to the interim or final evaluation.
- **Exploit the increasingly popular collaborative medium called Communities of Practices (COPs)—DAU has already established a site on the ACC, “Award and Incentive Fee Contracts.”**
[\(<https://acc.dau.mil/CommunityBrowser.aspx?id=105550>\)](https://acc.dau.mil/CommunityBrowser.aspx?id=105550).
 - Provides access to a wide array of documented lessons learned regarding incentives
 - Provides the community a bridge to the source of experts who face incentive challenges every day
 - Reinforces useful incentive practices and techniques
- **Develop a much more comprehensive Incentive Contracts CLM**



David M. Walker
Comptroller General of the United States

December 21, 2006 Responses to the Subcommittee on Defense, Committee on Appropriations, House of Representatives

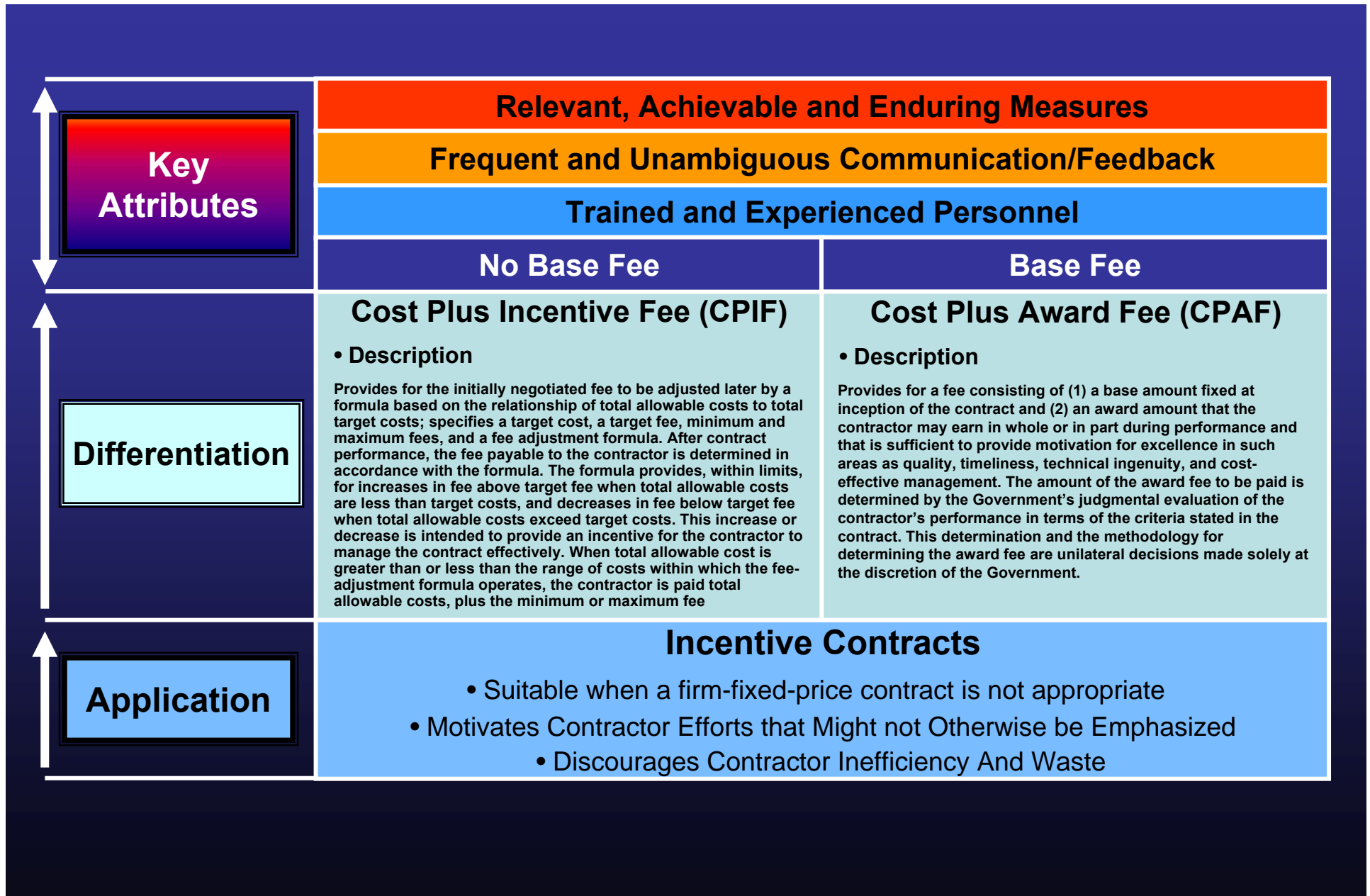
2. Do you believe they are an effective way to create incentives with contractors? In other words, do they improve contractor performance?

Award and incentive fees can be an effective tool if properly designed and effectively administered. However, for these fees to be effective, DOD must address the underlying problems in its acquisition system and more directly link the fees to the outcomes it wants. Because the weapon system programs that result from this system are in many cases unexecutable and/or subject to changing “requirements” or funding levels, DOD has been unwilling to hold its programs or its contractors accountable for achieving the very acquisition outcomes it has identified. As a result, fees are paid even when outcomes do not meet expectations. Addressing these broader acquisition issues and strengthening the link between fees and acquisition outcomes can increase the accountability of DOD programs for fees paid, of contractors for results achieved, and the likelihood that these fees will motivate the contractors and be an effective tool for the government.

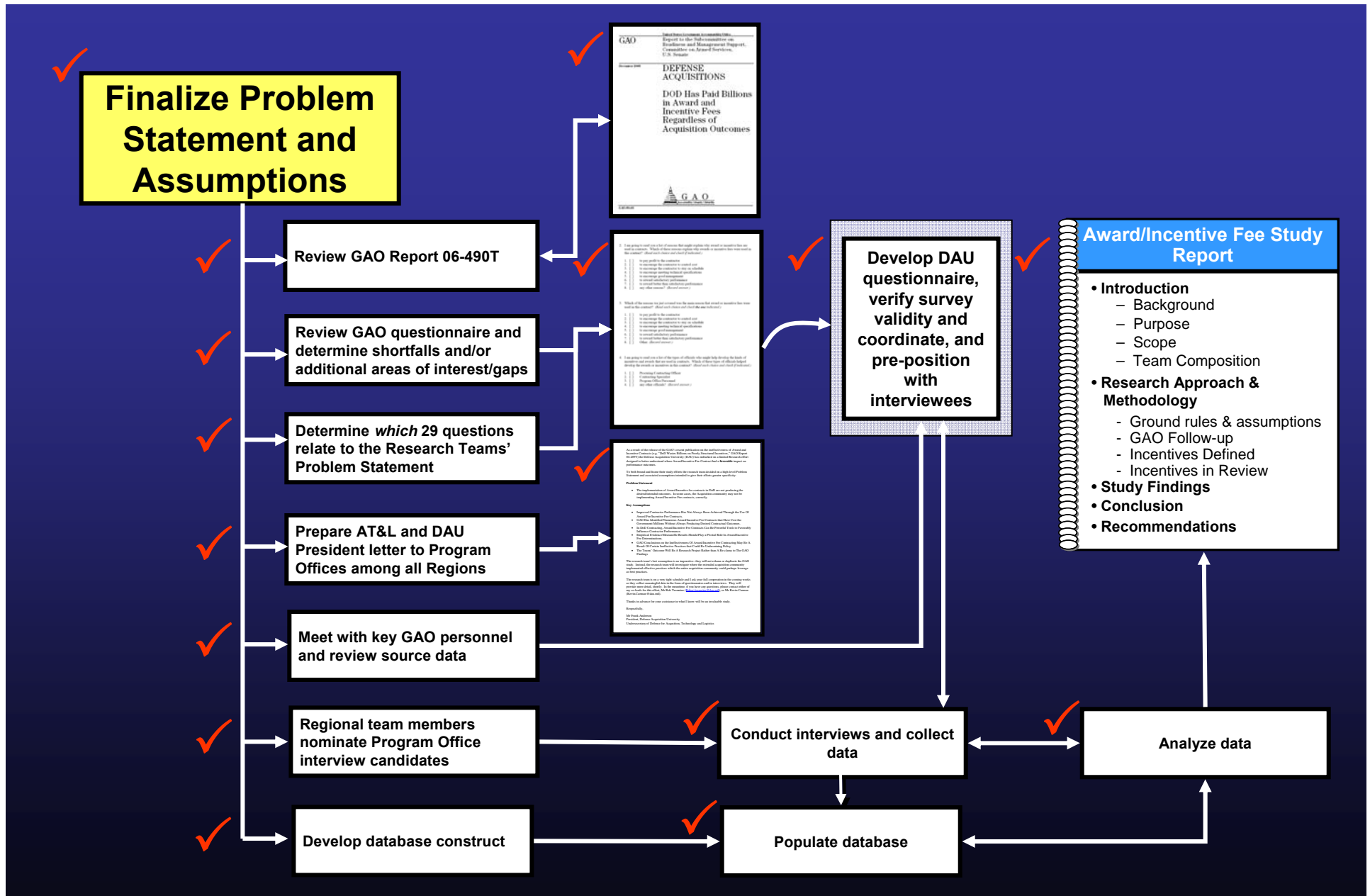
3. Do you believe we should discontinue the use of award and incentive fees?

No, we do not believe they should be discontinued. Award and incentive fees can be useful if they are used in the appropriate setting. Each contract type has a use based on the level of risk involved. The problem occurs when you proceed into programs without realistic requirements and sufficiently mature technologies on which to base realistic cost and schedule estimates and attempt to offset that increased risk by offering award fees to motivate the contractor to overcome that risk. The important question is: Have you adequately defined and established appropriate criteria that enable you to measure outcomes? And finally, how do you apply those criteria in determining the level of fee that can be justified? We have made several recommendations to this effect, and DOD has responded favorably with new guidance to link award fees to acquisition outcomes. However, as with other recommendations we have made related to DOD weapon system acquisitions, the key will be how this new policy is implemented.

An Aggregate View



How this Research Study Came Together



Back-Ups



- State-of-the-art facility designed and developed to support *group collaboration*.
- Participants can contribute anonymously and simultaneously, or at different times. The software also collects and tabulates votes, graphically and statistically displays results, and accesses other packages and documents.

