The Steps to Performance Based Acquisition (SPBA) guide has been updated to reflect changes to the federal acquisition environment and with more current references and resources. The content in this guide was reviewed by acquisition professionals from multiple agencies. The web-based guide - https://pba.app.cloud.gov/app/ - was redesigned from the ground up, drawing input from user tests of both the original 7 Steps site and prototypes of the new application interface throughout the development process. To-date 50 individuals from 25 agencies have participated in content review and application user testing. This project has also received support for content updates and product development from the industry partners listed above.
# Table of Contents

## Introduction
- A Performance-Based Preference
- Benefits of Performance-Based Acquisition
- Moving Toward Even Higher Performance-Based Competency

## Executive Summary

## STEP 1 - Establish an Integrated Project Team
- Ensure Senior Management Involvement and Support
- Tap Multi-Disciplinary Expertise
- Define Roles and Responsibilities
- IPT Makeup
- Develop Rules of Conduct
- Empower Team Members
- Identify Stakeholders and Nurture Consensus
- Develop and Retain Institutional Memory Over the Project Life
- Incentivize the Team: Link program Mission and Team Members’ Performance

## STEP 2 - Describe the Problem that Needs Solving
- Link Acquisition to Mission and Performance Objectives
- Define Desired Results at a High Level
- Decide What Constitutes Success
- Determine the Current Level of Performance
- Begin the Procurement Administrative Lead Time (PALT)

## STEP 3 - Market Research
- Take a Team Approach to Market Research
- Spend Time Learning From Government Acquisition Experts
- Talk to Private-Sector Companies Before Structuring the Acquisition
- Consider One-on-One Meetings with Industry
- Document Market Research
- PALT Reminders for Market Research

## STEP 4 - Requirements Gathering and the Develop PWS or SOO
- Gathering Comprehensive Requirements
  - **Plan Good Requirements**
  - **General Rules for Successful Requirements Gathering**
  - **Collaborate Within Your IPT and Get Key Stakeholder Buy-In**
  - **Ensure Results are Traceable & Change Management is Trackable**
  - **Understanding When to Use Which Requirements Document**
- Using a Performance Work Statement (PWS)
  - **Conduct an Analysis**
  - **Apply the “So What?” Test**
  - **Capture the Results of the Analysis in a Matrix**
  - **Write the Performance Work Statement**
  - **Let the Contractor Solve the Problem, Including the Labor Mix**
- Using a Statement of Objectives (SOO)
  - **Begin with the Acquisition’s “Elevator Message”**
  - **Describe the Scope**
  - **Write the Performance Objectives into the SOO**
Make Sure the Government and the Contractor Share Objectives
Identify the Constraints
Develop the Background
Make the Final Checks and Maintain Perspective

PALT Reminders for Requirements Gathering

STEP 5 - Decide How to Measure & Manage Performance
Review the Success Determinants
Rely on Commercial Quality Standards
Contractor Proposed Metrics and Quality Assurance Plan
Select Only a Few Meaningful Success Measures
Contractual Language for Changes to the Metrics
Contract-Type Order of Precedence

Use Incentive-Type Contracts
Consider Award Term
Consider Other Incentive Tools
Profit is Still a Performance Incentive
Most Importantly, Consider the Relationship

STEP 6 - Source Selection
Complete the Solution
Use Down-selection and Due Diligence
Use Oral Presentations and Other Opportunities to Communicate
Emphasize Past Performance in Evaluation
Use Best-Value Evaluation and Source Selection
Assess Solutions for Conflict of Interest Issues

STEP 7 - Manage Performance & Solutions
Keep the Team Together
Adjust Roles and Responsibilities
Assign Accountability for Managing Contract Performance
Add the Contractor to the Team at a Formal Kick-Off Meeting
Apply the Six Disciplines of Performance-Based Management™
Regularly Review Performance in a Contract Performance Improvement Working Group
Ask the Right Questions
Report on the Contractor’s Past Performance

STEP 8 - Close-Out Performance-Based Contracts
The 12 Steps of Contract Closeout
Time Standards for Closing Contract Files
Accelerated Closeout
Record Retention by Federal Agencies

Conclusion
Introduction

Over the last two and a half decades, Congress and the Executive Branch have reformed the laws and policies that govern federal acquisition. Among the most important of these reforms are the Government Performance and Results Act of 1993, the Federal Acquisition Streamlining Act of 1994 (FASA), and the Clinger-Cohen Act of 1996. All of these laws send an important message about performance in federal programs and acquisitions.


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 Acquisition).

Law and regulation establish a preference for performance-based acquisition (PBA). The Office of Management and Budget continues a long line of support for this acquisition approach, so much so that they started the Performance-Based Contracting Task Group within the OFPP solely for PBA. This organization was charged with expanding the use of PBA within the federal government. The Task Group established yearly goals, FPDS reporting guidelines for PBA, and an inter-agency task force focused solely on how to expand the use of PBA throughout the federal acquisition landscape.

Benefits of Performance-Based Acquisition

Performance-based acquisition has many benefits including:

- Increased likelihood of meeting mission needs
- Focus on complete results instead of processes
- Better value and enhanced performance
- Less performance risk
- Contractor flexibility in proposing better solutions
- Better competition: not just contractors, but solutions
- Contractor buy-in and shared interests
- Shared incentives permit innovation and cost effectiveness
- Less likelihood of a successful protest
- Clear and concise performance measures increase communication between government and industry
- Surveillance: less frequent, more meaningful
- Results documented for Government Performance and Results Act reporting, as by-product of acquisition
- Variety of solutions from which to choose
- Less administrative burden due to decreased number of scope modifications
Moving Toward Even Higher Performance-Based Competency

The federal acquisition workforce has embraced PBA with some degree of success. Mandatory performance-based acquisition goals for agencies led to greater understanding of the PBA environment. The first iteration of performance-based acquisition, along with other federal government guidance, memoranda, letters, and best practices have equipped the acquisition community to correctly and efficiently solicit, award, and manage performance-based contracts. The increased efficiency gained from the use of PBA means greater clarity and communication between the government and industry partners. The purpose of the Steps of Performance Based Acquisition, is to increase the base level knowledge of the collective performance-based acquisition team, which includes representatives from budget, technical, contracting, logistics, legal and program offices. This tool will also serve as a starting point for incoming acquisition professionals, who are interested in learning when and why this acquisition method is most appropriate and for seasoned professionals looking for additional tools and resources.

While there are a growing number of leaders who are current practitioners of this acquisition method, it remains difficult for an agency to assemble a team of people who together have the experience and knowledge to drive such an acquisition through to successful contract performance. Despite these difficulties, the new and expanded integrated project team (IPT) provides opportunities by bringing together people who can add a fresh perspective, insight, energy, and innovation to the process.

Performance-based acquisition can be daunting, and guides on the subject can easily run up to 50, 75 and even 100 pages. This makes learning something new appear more complicated than it really is. A successful acquisition answers four questions:

- What do I need,
- When do I need it,
- Who needs to get it to me, and
- How do I know it’s good when I get it?

This refreshed guide breaks down performance-based acquisition into basic steps complete with references, examples, best practices, and templates. It is intended to make the subject of PBA accessible for all and shift the paradigm to collaborative performance-oriented teamwork with a focus on program performance and improvement, not simply contract compliance. Once the shift is made, the library and links sections interwoven in this guide will lead you, the reader, into the rich web of federal performance-based guidance.

Executive Summary

One of the most important challenges facing agencies today is the need for the continued adoption of the performance-based acquisition acquisition method to meet mission and program needs. Performance-based acquisition can dramatically transform the nature of service delivery, and permit the federal government to tap the enormous creative energy and innovative nature of private industry.

Although there have always been practitioners of performance-based acquisition, laws, policies, and regulations have dramatically expanded awareness and use of performance-based acquisition in the federal government. Concurrently, there’s been greater emphasis on establishing an acquisition team that consists of people with varying perspectives. In addition to technical and contracting staff, for example, there is value added by including those from program, legal, and financial offices. These professionals add unique perspective, insight, energy, and innovation to the process.
This guide, geared to the greater acquisition community (especially program offices), breaks down performance-based service acquisition into eight steps: the first seven spanning from acquisition planning through performance management and a new eighth step for contract closeout. The steps are outlined below:

1. **Step 1: Establish an Integrated Project Team**
2. **Step 2: Describe the Problem That Needs Solving**
3. **Step 3: Conduct Market Research**
4. **Step 4: Develop a Performance Work Statement (PWS) or Statement of Objectives (SOO)**
5. **Step 5: Decide How to Measure and Manage Performance**
6. **Step 6: Source Selection**
7. **Step 7: Manage Performance & Solutions**
8. **Step 8: Closing Out the Contract**

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**STEP 1 - Establish an Integrated Project Team**

Given the statutory, policy, and regulatory mandates discussed in the introduction, it is imperative that teams of people work cooperatively toward a common goal when conducting acquisitions. This is the model used by GSA and the Department of Defense (DoD), which have come to recognize the limitations of clearly defined roles, responsibilities, and organizational boundaries. Successful agencies have adopted the use of acquisition teams that integrate all stakeholders’ efforts toward one goal: mission accomplishment.

The principles of teamwork are also reflected in the **Federal Acquisition Regulation (FAR)**, which (1) recognizes that teams begin with the customer and end with the contractor and (2) outlines procurement policies and procedures that are used by the acquisition team. The FAR specifically provides that contracting officers should take the lead in encouraging business process innovations and ensuring sound business decisions. In this guide, we call such acquisition teams Integrated Project Teams or IPTs in acknowledgement of an established term for these groups of professionals, a change from the previous iteration where the teams were known as Integrated Solutions Teams.

**Ensure Senior Management Involvement and Support**

The **Acquisition Center of Excellence (ACE) for Services** has stated that senior management involvement and support is a key predictor of success. Likewise the Chief Information Officer (CIO) Council document, **Implementing Best Practices: Strategies at Work**, cites strong leadership at the top as a success factor in the selection, evaluation and control processes associated with acquisition investment review. By its very nature, an IPT has members whose affiliations cut across organizational boundaries, i.e. finance, legal, program management office (PMO), contracting, etc. Defined roles and responsibilities can become an issue unless there is strong, effective senior management support and a shared vision. Program decision makers should be on the team and, in fact, are required by the FAR to “describe the need to be filled using performance-based acquisition methods” [**FAR 37.102(e)**]. Creating buy-in from leadership and establishing the realms of authority are essential to performance-based project success.

**Tap Multi-Disciplinary Expertise**

In order to maximize the experiences, skill-sets, and ideas inherent within various career fields, it is essential to have multi-disciplinary expertise in IPTs. In addition to contracting staff represented on an IPT, for example, are staff from
the program, financial, end-user, and legal offices. In addition to the multi-disciplinary expertise of the IPT there may be other subject matter experts (SMEs) who will contribute to the requirements package and contract.

It is important to recognize that IPTs are not a training ground. They’re a collection of employees with subject matter expertise and/or contracting experience. Furthermore, a baseline of the processes, regulations, and expected contributions are necessary.

**Define Roles and Responsibilities**

It is important that the members of the IPT understand their roles and responsibilities. Regardless of its representation, the IPT is responsible for ensuring that the acquisition:

- Satisfies legal and regulatory requirements
- Has measurable performance and investment objectives consistent with the agency's strategic goals
- Completely captures the customer's needs and intended results
- Remains on schedule and within budget

Successful teams typically have a number of features, including:

- Unity of purpose
- Self-consciousness about its own operations
- Clear and demanding performance goals
- Informal, comfortable, and relaxed atmosphere
- Participation from all team members
- Feelings and ideas are freely expressed
- Disagreement is viewed as a positive
- Decisions are usually made by general agreement
- Each individual carries their own weight
- Criticism is frequent, frank, and relatively comfortable
- Leadership of the group shifts periodically

In a team environment, members share responsibility for project success and embrace the concept of all members answering to one “coach” also known as the Program Manager.

**IPT Makeup**

The members of an IPT will vary in size depending on the size, scope, and complexity of an acquisition. For small, non-complex acquisitions, the IPT may consist of only the Contracting Officer and/or Contract Specialist and the Project/Program manager; however, for large acquisitions there may be upwards of 6-8 members. It is important to realize that having too many team members can be counter-productive. Prior to starting acquisition activities the PM or Product Owner (PO) should meet with functional managers to discuss the expected level of effort (LOE) for the acquisition lifecycle. The PM/PO should discuss all of the necessary steps in the acquisition and ask for appropriate resources as necessary. Typically, the IPT will include a mix of the following roles:

- **Contracting Officer (CO):** The CO’s roles include working with the PM/PO to determine contract vehicle, contract type and contract value; to develop the IGCE; and to oversee and approve the completion of a comprehensive requirements package. The CO will review and approve all contractual documents, including the Request for Information (RFI), solicitation, and award documents. The CO will lead any due diligence sessions and will be the Government representative for any and all Industry questions. The CO will be involved, with assistance from the PM/PO, from the inception of the acquisition process through the close-out of the contract. Note: Only COs can obligate the Government’s funds.

- **Contract Specialist (CS):** The CS is responsible for assisting the CO with all activities through the life of the acquisition and beyond, contract performance to closeout. The CS may be required to be the representative for the Government to manage the contract once awarded. The CS should be involved in the IPT, as necessary, based on the LOE and the needs of the CO.
Project/Program Manager (PM): The PM should be the first person identified when a need for a service is identified. The PM is responsible for running the acquisition from a technical standpoint and is the voice of the customer and stakeholder. As important as the CO is, the PM is equally responsible for seeing the acquisition through from inception through award. The PM will work with members of the technical evaluation board (TEB) to develop appropriate requirements, will monitor Procurement Administrative Lead Time (PALT), will be responsible with managing the acquisition plan and schedule, as necessary, and will be the leader for stand-ups meetings. The PM is tasked with ensuring that the government provides industry with a complete RFP that will allow them to successfully submit an offer. The PM will work with the CO to build the requirements package based on the guidelines for the requirements document (e.g. Statement of Objectives, Statement of Work, or Performance Work Statement).

Technical Experts: Technical experts representing the major areas/elements of the project’s work breakdown structure (WBS) may be included in the IPT to assist the PM in developing a comprehensive requirements package. The PM will use experts in their specific career path to ensure that all requirements and information in the solicitation are correct and current based on the environment that services will be provided in.

Cost/Performance: Cost/Performance personnel may be required to assist the PM during development of the independent government cost estimate (IGCE) for the contract. They can also play a key role in the evaluation of proposals by providing an in-depth cost and pricing review of the pricing volume.

Others as Necessary (ie. Legal, Testing, IT, Finance, Administrative etc.): Depending on the size, scope, and complexity of the acquisition it may be necessary for other members to be included in the IPT. For example, if the contract exceeds a certain threshold a legal review of the RFP, Determinations and Findings, Justifications and Approvals, and all award documents. Additionally, if the acquisition is for Information Technology (IT) services, it may be necessary to include testing individuals to assist with the technical evaluation board. These additional members should be brought into the IPT as necessary; however, they should be identified at the beginning of the acquisition in order to give them notice that their support may be needed in an ad hoc capacity.

The Defense Acquisition University (DAU) has an in-depth guide into the IPT forming process.

Develop Rules of Conduct

IPTs must develop rules of conduct. Setting the rules and then insisting on their use is paramount to effective team operation. Given a clear purpose and defined approach for working together, teams are more likely to move efficiently through the early phases of team performance and achieve the desired result. Team cohesion is a critical success factor in performance-based acquisition.

The following phases of teamwork were identified by B.W. Tuckman in the Tuckman Model:

- **forming**, or coming together
- **storming**, or conflict
- **norming**, or working out the rules
- **performing**, or getting the job done
- **adjourning**, or ending the job (closure)

While the length of time different groups take to pass through each of these developmental phases varies, high team performance is usually achieved at the performing phase.

Empower Team Members

With regard to empowering members of an IPT the Statement of Guiding Principles for the Federal Acquisition System found at FAR 1.102(a), says it most simply:

"Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility."
Clearly defined levels of empowerment are critical to success. The Department of Commerce’s Concept of Operations (CONOPS) for acquisition programs states that empowerment is tied to responsibility, authority, and autonomy. Empowering team members increases efficiency including reduced decision-making time due to decentralized decision making and an increased sense of personal ownership over the project, increasing productivity. Furthermore, a sense of ownership will increase team morale and team cohesion.

**Identify Stakeholders and Nurture Consensus**

Some potential Stakeholders could include customers, the public, oversight organizations, and members and staff of Congress among others. It is important for the IPT to identify all the stakeholders and the nature of their interests, objectives, and possible objections. At a minimum, stakeholders should be consulted and, at times, may participate on the IPT. While all stakeholders should feel empowered to speak up, the IPT should be most concerned with the end user, who is ultimately the key stakeholder. The IPT’s ultimate objective must be to provide the end user with a contract that meets their needs and provides measurable performance objectives.

In developing the acquisition, the key tools the team should use are consensus and compromise, without losing sight of the three key questions:

1. **What do we need?**
2. **When do we need it?**
3. **How do we know it’s good when we get it?**

**Develop and Retain Institutional Memory Over the Project Life**

“*How do you predict the future... you create it.*”

- Peter Drucker

A continuing concern within the acquisition community is institutional memory retention. **Institutional Memory** is defined by the National Academies Press (page 9) as, “The body of knowledge, formal as well as informal, that is essential to the continuous and effective functioning of the agency at all levels.” It requires ongoing transmission of knowledge among the community. Maintaining this institutional memory is paramount in seamlessly progressing from acquisition planning through acquisition award and ultimately to post award administration.

The IPT must consider the need to manage institutional memory because acquisitions and the awarded contracts transpire over years with individuals joining and leaving the team, taking their knowledge and experience (institutional memory) with them.

Passing responsibility to a contract administrator who does not know the history of the project, why decisions were made, and why performance measures are structured or worded the way they are, may result in more modifications and increase administrative burden.

The key members of the team should be part of the IPT from the initial discussions of mission-based need, into contract performance, and through contract closeout. This continuity, combined with a focus on maintaining the project’s knowledge base, increases the likelihood of success. It is important for the IPT to document in the acquisition plan the rationale behind key contractual decisions such as performance measures, vision and goals of project, etc. Written records will assist with a seamless transition from one team member to the next as the contract processes through its lifecycle.

**Incentivize the Team: Link program Mission and Team Members’ Performance**

If continuity is important, what can be done to keep a team together, performing optimally, and staying on schedule? One recommendation is to link program mission and team members’ performance, and then tie performance to pay, recognition, and career progression. If the acquisition has performance objectives and the
contractor has performance objectives, then the government team should also have performance objectives. Keep in mind that these performance objectives should be program-based, not acquisition-based. Make sure the incentives are tied to the right results.
STEP 2 - Describe the Problem that Needs Solving

A performance-based picture of the acquisition should be the team’s first consideration. It is not yet time to retrieve the information from prior contracts, search for templates, think about contract type or incentives, or decide on the contractor or the solution.

Planning for an acquisition should begin with business planning that focuses on the required output/outcome. The following questions should be considered. What is the problem the agency needs to solve? What performance is required? Will it meet the organizational and mission objectives? What is the required timeline for the performance-based contract to begin?

Changes made to the Federal Acquisition Regulation in 2006 emphasize that acquisition planning must encompass performance-based considerations. FAR 7.105 (Contents of written acquisition plans) specifically provides that “Acquisition plans for service contracts or orders must describe the strategies for implementing performance-based acquisition methods or must provide rationale for not using those methods.” Moreover, the responsibility for performance-based strategies is tied back to program officials: “Agency program officials are responsible for accurately describing the need to be filled, or problem to be resolved, through service contracting in a manner that ensures full understanding and responsive performance by contractors and, in so doing, should obtain assistance from contracting officials, as needed. To the maximum extent practicable, the program officials shall describe the need to be filled using performance-based acquisition methods.” [FAR 37.102(e)]

The Government Performance and Results Act of 1993 requires that agencies establish and “manage to” mission-related performance goals and objectives. Mission-critical acquisition should relate to the Results Act objectives. Although many acquisitions do not make this link, performance-based acquisitions must make this connection to the agency’s strategic plan and to employees’ performance plans.

Link Acquisition to Mission and Performance Objectives

An acquisition’s foundation is in its intended support of an agency’s mission, performance goals, and objectives (reported to OMB and Congress under the Results Act’s strategic and annual performance planning processes). Describing an acquisition in terms of how it supports these mission-based performance goals allows an agency to clearly establish the relationship of the acquisition to its business, and it sets the stage for crafting an acquisition in which the performance goals of the contractor and the government are in sync.

This mission-based foundation normally must be established by or in cooperation with people who work in the program area that the resources will support when they are acquired. This is why assembling the team is the first step in a performance-based acquisition. Again, note that the focus is not what resources are required; the focus is what outcome is required.

With this foundation, when the planning process is complete, an agency should be able to demonstrate clearly how an individual acquisition’s performance objectives will assist in achieving the agency’s mission and goals.

Define Desired Results at a High Level

Once the acquisition is linked to mission, the thoughts of the team should turn to contract performance outcomes. Is it a lower level of defaults on federal loans? Is it a reduction in benefit processing time? Is it broader dissemination of federal information? Is it a reduction in the average time it takes to get relief checks to victims? What is the ultimate intended result of the contract and how does it relate to the agency’s strategic plan?

Note that these are questions that a previous contract, or a previous solicitation, cannot answer. This is one of the tough tasks that the IPT must face.
These answers can normally be found through facilitated work sessions with program staff, customers, and stakeholders - it does not require an exhaustive analysis. Those conversations need to be captured in the Performance Work Statement (PWS) or Statement of Objectives (SOO).

Note that to do this well, the team will need to seek information from the private sector during market research. Industry benchmarks and best practices may help sharpen the team’s focus on what the performance objectives should be.

**Decide What Constitutes Success**

Just as important as a clear vision of desired results is a clear vision of what will constitute success for the project. These are two distinct questions: Where do I want to go, and how will I know when I get there?

In the Joint Direct Attack Munitions (JDAM) Selected Acquisition Report, for example, affordability (in terms of average unit production price) was a key element, along with how well the product met the live-or-die criteria. Affordability was communicated in no uncertain terms from top-level management to the acquisition team, and from the acquisition team to the competing contractors. As the project manager recalled, “I had a strong sense of empowerment... from the Air Force Chief of Staff who said basically, ‘Do what you have to do to get the products under $40,000.’”

With that clear mandate and the benefits of head-to-head contractor competition, the final winning proposal included an average unit production price between $14,000 and $15,000; far lower than the original cost target of $40,000 and the original cost estimate of $68,000 per unit.

It is important to establish a clear target for success, which will then serve to focus the efforts of the IPT in crafting the acquisition, the contractors in competing for award, and the government-industry team throughout contract performance.

**Determine the Current Level of Performance**

The main reason to determine the current level of performance is to establish the baseline against which contract performance can be measured, be that with a new requirement or a follow-on contract for existing work being performed. If you do not know where you started, you can not tell how far you have come.

In order to think about taking measurements of current performance, think about what happens when you rent a car. The company will give you a piece of paper with an outline of a car on it. You’re asked to go outside, and mark on the diagram every nick and scratch you see, so that when you return the car, the baseline is clear. This is precisely what we need to do with our current contracts or operations.

Keep in mind that the government does not necessarily have to do the baseline measurement. Another approach is to require a set of metrics as a deliverable under a current contract. Even if there were no existing provisions, this could easily be done via contract modification. New solicitations can be written with provision for delivery of baseline and/or current performance levels, either annually, at the end of the contract, or both. The IPT must determine the adequacy of the baseline data for the new contract, to ensure they achieve the best results.

**Begin the Procurement Administrative Lead Time (PALT)**

In order to accurately plan performance-based acquisitions, procurement administrative lead time, or PALT, should be developed and monitored in every acquisition. [DAU provides a couple helpful definitions:]

**Procurement Action Lead Time (PALT):** the amount of time required to complete the actions leading to contract award.

**Procurement Lead Time (PLT):** the interval in time between the initiation of procurement action and receipt of the products or services purchased as the result of such actions.
The Importance of Lead Times

PALT impacts a variety number of people across the acquisition landscape. Here are examples of stakeholders that an ineffective or non-existent PALT can affect:

- CORs can be impacted by having to recreate multiple PR packages for the same requirement. This is a timely and ineffective process that takes away from a COR’s other job duties.
- Contracting Officers are responsible for entering the Government into contractual agreements. When the contracts to create the contractual agreements are delayed or missing vital information, the contracting officers are unable to perform their jobs and secure vital supplies and services for the Government.
- Procurement Team (Procurement package processors, document drafting support) also faces a great deal of rework when PALT is missed. The procurement package processors have to process extensions, bridges, and modifications. The document drafting support has to perform compliance reviews of multiple packages and create additional and sometimes unnecessary documentation.
- Government Agencies In the case of Inter and Intra – Agency Agreements, government agencies work together to provide supplies and services for a lower cost. If Inter and Intra – Agency Agreements are never created, the agencies will pay a higher premium for similar services on the commercial market.
- Companies (Incumbents and bidders) spend a great deal of time preparing proposals for government work. Ineffective PALTs lead to an uncertain environment – when will the contract be awarded? How long will the incumbent need to continue providing supplies and services? When are quotes or proposals due?
- United States Citizens face higher taxes due to the increased costs of securing supplies and services. The higher costs come from the increased personnel required for the rework of PR packages and costly incumbent contractors when a new contractor can perform the same work for a lower cost.

Awarding contracts in a timely manner does not have to be a strenuous or troublesome activity. Applying acquisition and project management best practices, especially in areas such as communication and progress checks, increases the odds of meeting Procurement Administrative Lead Times. This is turn can result in more efficient awards and on-time procurement of supplies and services in support of agency missions.

PALT should be reviewed for accuracy along the full acquisition lifecycle through final award of the contract. The main tasks associated with PALT include developing a timeline for each major step in the acquisition life-cycle. Acquisition program managers, financial managers, technical subject matter experts, and the entire IPT are tasked with ensuring PALT is met and followed closely. In order to meet PALT, the IPT should:

- First, schedule specific meetings at an appropriate intervals to go over what has happened, what is scheduled to happening, what, if any, impediments are there, and how to close the gap if one has surfaced. Staying aware of the upcoming procurements and recognizing any potential hindrances will provide the best chance to overcome obstacles early in the process. The meetings also ensure that everyone is on the same page and provides an opportunity to address obstacles.
- Second, open lines of communication with the COR and the Contracting Officer is imperative to manage expectations and to close any gaps that occur. The COR and CO should work in lock-step to ensure the team developing the requirements package is aware of all concrete deadlines and have a clear picture of exactly what documentation will be required in a complete requirements package.
- Third, IPT members should work closely with one another to ensure the information included in the requirements package and acquisition package are in line with one another and to ensure the document has one voice and no conflicting information. Collaboration of this nature ensures the PALT remains on schedule. Complete procurement packages allows for quicker processing and faster contract awards, ensuring PALT is met, or reduced.
- Finally, COs/CORs should schedule Procurement Planning Conferences. The initial conference should be scheduled when the requirement is first discovered in order to lay out a schedule and create a baseline for acquisition. Stakeholders who deal directly with the procurement request packages will then have a firm
idea of how far out they need to start preparing. Additional procurement planning conferences we will be set up to encourage routine tracking of progress instead of guesstimating.
STEP 3 - Conduct Market Research

Once the acquisition's intended results (performance measures) have been identified, the Integrated Project Team (IPT) should begin to examine both government and industry solutions. This is market research, and it is vital to conducting an effective performance-based acquisition.

Market Research is the process of gathering, analyzing, and interpreting information about a market; about a product or service to be offered for sale in that market; and about the past, present and potential customers for the product or service. Market research is done throughout the acquisition process (from pre-award through post-award) beginning with the mission needs statement. The level of specificity and scope varies at different points, but market research is a continuous process. It also includes research into the characteristics, spending habits, location and needs of your business's target market and the industry as a whole. Market research is essential to the government’s ability to buy best-value products and services that solve mission-critical problems. Timely, comprehensive market research data are critical to making good business decisions throughout the acquisition lifecycle. Acquisition reform has opened the door to effective new approaches to market research that should be undertaken by the IPT long before attempting to write a PWS.

Primary guidelines for collecting and using market research data are included in the following parts of the FAR:

- **FAR Part 5** - Publicizing Contract Actions provides information on the issuance of special notices such as requests for information, availability of draft solicitations or specifications, etc., that may be disseminated through the Government-wide Point of Entry (GPE).
- **FAR Part 6** - Competition Requirements highlights the importance of documenting market research efforts/results in justifying open market actions awarded under other than full and open competition.
- **FAR Part 7** - Acquisition Planning highlights the role of market research in determining the acquisition strategy and developing the acquisition plan.
- **FAR Part 11** - Describing Agency Needs provides guidance on specifying needs using market research and stating requirements in terms of functions to be performed, performance required, or essential physical characteristics.
- **FAR Part 12** - Acquisition of Commercial Items provides guidance on determining whether the Government's requirements can be met by “commercial items,” i.e., products or services customarily available in the commercial marketplace or customarily available in the commercial marketplace with modifications.

Market research can be broken down into two interrelated, but distinct, types: on-going market research (often called market surveillance) and requirement-specific market research. Ongoing market research includes all the activities that the members of the acquisition team/IPT perform continuously to keep themselves abreast of technology and product developments in their areas of expertise. Ongoing market research does not involve gathering market information to fill a specific need. Requirements-specific market research, which involves more in-depth yet narrowly focused research, is conducted to meet a specific need for a product or service to support a specific acquisition strategy within a specific need.
Take a Team Approach to Market Research

In the past, it was not unusual for technical staff to conduct market research about marketplace offerings, while contracting staff conducted market research more focused on industry practices and pricing. A better approach is for the entire IPT to be a part of the market research effort. This enables the members of the team to share an understanding and knowledge of the marketplace - an important factor in the development of the acquisition strategy - and a common understanding of what features, schedules, terms and conditions are key.

Spend Time Learning From Government Acquisition Experts

While many are familiar with examining Industry sources and solutions as part of market research, looking to the public-sector is not as common a practice. Yet it makes a great deal of sense on several levels.

First, there is an increased interest in cross-agency cooperation and collaboration. If the need is for help desk support, for example, many federal agencies have “solved” that problem and could potentially provide services through an interagency agreement or through an existing multiple-award contract vehicle. Alternatively, it could be that to provide seamless services to the public, two or more agencies need to team together to acquire a solution.

Second, agencies with similar needs may be able to provide lessons learned and best practices. For example, taking advantage of a Government-wide Agency Contract (GWAC) may save time and resources; using a GWAC also helps to meet OMB spend under management objectives. Another agency conducted public-sector market research about seat management implementation in the federal government. Because of the government’s new initiative for Category Management, it is imperative to do market research on existing contract vehicles. In doing so we can limit the number of new contracts being produced and maximize the amount of services being procured using existing contract vehicles. So it is important for the IPT to talk to their counterparts in other agencies. Taking the time to do so may help avert problems that could otherwise arise in the acquisition.

FAR Part 10 identifies techniques for conducting market research including the use of www.contractdirectory.gov to see if there is an existing contract available to meet agency requirements. The Acquisition Gateway Solutions Finder provides a repository of existing acquisition solutions available, with features to identify best-in-class (BIC) contracts, compare solutions and conduct a more in depth analysis. Another very useful market research tool is Discovery Market Research Tool. Discovery is a market research platform for acquisition professionals that allows them to research government-wide service contracts, their data, and their awarded vendors. Through this tool, give users the means to answer their pre-award questions without needing to issue RFIs or search across the internet.

Other tools that may be utilized in market research are the Document Library and CALC tool.

Talk to Private-Sector Companies Before Structuring the Acquisition

With regard to the more traditional private-sector market research, it is important to be knowledgeable about commercial offerings, capabilities, and practices before structuring the acquisition in any detail. This is one of the more significant changes brought about by acquisition reform.

Some of the traditional ways to do this include issuing “sources sought” type notices at FedBizOps.gov, conducting Industry Days, issuing Requests for Information (RFI), holding pre-solicitation conferences, and performing due diligence sessions with potential Industry partners. Early engagement in the acquisition process, for example, prior to issuing any RFPs, can provide the Government an opportunity to exchange ideas regarding specific challenges and potential solutions. It can lead to alternative or innovative solutions.

It is okay to simply pick up the phone and call private-sector company representatives. Contact with vendors and suppliers for purposes of market research is now encouraged. In fact, FAR 15.201(a) specifically promotes the exchange of information “among all interested parties, from the earliest identification of a requirement through receipt of proposals.” The limitations that apply (once a procurement is underway) are that prospective contractors be treated fairly and impartially and that standards of procurement integrity [FAR 3.104] be maintained. But the real
key is to begin market research as early as possible during the acquisition planning stage. Communicating early with vendors during the acquisition process can help the Government gain useful information and improve the quality of market research efforts.

**Consider One-on-One Meetings with Industry**

While many may not realize it, one-on-one meetings with industry leaders are not only permissible - see Federal Acquisition Regulation 15.201(c)(4) - they are more effective than pre-solicitation or pre-proposal conferences. Note that when market research is conducted before a solicitation or PWS is drafted, the rules are different. FAR 15.201(f) provides, for example: “General information about agency mission needs and future requirements may be disclosed at any time.” Since the requirements have not (or should not have) been defined, disclosure of procurement-sensitive information is not an issue.

It is effective to focus on commercial and industry best practices, performance metrics and measurements, innovative delivery methods for the required services, and incentive programs that providers have found particularly effective.

This type of market research can expand the range of potential solutions, change the very nature of the acquisition, establish the performance-based approach, and represent the agency’s first step on the way to an “incentivized” partnership with a contractor. Typically these one-on-one meetings are held immediately after the Industry Day in order to reach all interested vendors within a short timeframe.

**Document Market Research**

FAR Part 10.002(e) states that "agencies should document the results of market research in a manner appropriate to the size and complexity of the acquisition," and leaves the specificity of that documentation open ended. The extent of market research and the level of documentation required for an acquisition are based on factors such as urgency, estimated dollar value, complexity, and past performance.

Good business practices suggest ongoing market research of the industries that provide products and services that support agency programs. The acquisition team/IPT should use market research information to:

1. Refine a requirement to maximize the benefit of competitive market forces;
2. Review a requirement if it is determined that a commercial item may not satisfy the agency's needs to determine if modifying the requirement may meet mission need as well as allow a commercial item to be acquired; and perform tradeoff analysis to determine if the modification is in the best interest of the Government;
3. Establish the most suitable approach to acquiring, distributing, and supporting products and services from the best available source (including new entrants into Government contracting);
4. Ensure compliance with Government policies, such as socio-economic contracting goals, the SAFETY Act, environmental goals and requirements;
5. Support price reasonableness determinations;
6. Avoid potential problems associated with contingencies and minimize the risk of doing business for the Government and the contractor; and
7. Effectively identify the capabilities of small businesses and new entrants into federal contracting that are available in the marketplace for meeting the requirements of the agency in furtherance of a contingency operating or defense against or recovery from nuclear, biological, chemical, or radiological attack; and disaster relief to include debris removal, distribution of supplies, reconstruction, and other disaster or emergency relief activities.

A 2014 GAO Report titled [Market Research - Better Documentation Needed to Inform Future Procurements at Selected Agencies](https://www.gao.gov/products/GAO-14-581) "identified four elements which, if recorded, would provide an understanding of the research completed. These elements include the market research methods used, when it was conducted, an analysis of..."
vendor capabilities, and a conclusion." GAO found that more robust market research appeared to contribute to higher degrees of competition.

**PALT Reminders for Market Research**

- Ensure Market Research is conducted with both internal and external resources.
- Utilize Solutions Finder to assist with Market Research.
- Utilize Category Management Acquisition Gateway to assist with market research.
- Remember to use IPT to reduce PALT by delegating tasks amongst team members.
There are two ways to develop a specification for a performance-based acquisition: by using a **Performance Work Statement (PWS)** or a **Statement of Objectives (SOO)**. In order to develop a complete and comprehensive PWS or SOO requirements must be gathered and defined. In depth knowledge of the functions the government will be asking contractors to perform is essential to ensuring work will be completed on-time, within scope and within budget.

The PWS process is discussed in most existing guides on performance-based acquisition. Among its key processes are conducting a job analysis to completely define what work will be completed and development of a PWS and quality assurance and surveillance plan (QASP). When people talk about performance-based acquisition, this is typically the model they have in mind.

The alternative process - use of a SOO - is another methodology that turns the acquisition process around and requires competing contractors to develop the PWS, performance metrics and measurement plan, and quality assurance plan; all of which should be evaluated before contract award. If the SOO approach is used, FAR 37.602(c) directs us to remove the SOO when the contract or task order is awarded, and replace it with the awardee’s winning PWS. The SOO approach is described briefly in the Department of Defense **Handbook for Preparation of Statement of Work (SOW)**, Section 5, for example:

> "The SOO is a government prepared document incorporated into the RFP that states the overall solicitation objectives. It can be used in those solicitations where the intent is to provide the maximum flexibility to each offeror to propose an innovative development approach."

The SOO is a very short document (e.g., under ten pages) that provides the basic, high-level objectives of the acquisition. It is provided in the solicitation in lieu of a government-written SOW or PWS.

In this approach, the contractors’ proposals contain the PWS and performance metrics and measures (which are based on their proposed solutions and existing commercial practices). Use of a SOO opens the acquisition up to a wider range of potential solutions. The Veterans Benefits Administration successfully used a SOO to conduct the loan servicing acquisition discussed herein.

In addition to the Steps to PBA Resource Library, acquisition professionals should utilize the Acquisition Gateway’s **Document Library (docLibrary)** to locate examples and templates of PWSs and SOOs. The docLibrary tool was originally created as a central location for the acquisition community to review actual PWS/SOOs used in procurements - it has since been expanded to include a variety of sample/templatized acquisition documents. The Acquisition Gateway also includes articles, notes, and various market research tools.

### Gathering Comprehensive Requirements

Requirements gathering is an essential part of any project and of correct project management. A deep understanding about what a project will be asked to deliver is critical to its success.

One tool that may be helpful in working through and completing Step 4 is the Defense Acquisition University's (DAU's) Acquisition Requirements Roadmap Tool - Requirements Definition (ARRT - RD). ARRT-RD is an automated job assistance tool used to write performance-based requirements. Using the tool, you can create Performance Work Statements (PWS), Quality Assurance Surveillance Plans (QASP), and Performance Requirement Summaries (PRS). Click the callout to the right for more information and to download the tool.

**NOTE:** ARRT-RD may or may not work on non-DoD computer systems.
Plan Good Requirements
Many projects start with the barest headline list of requirements, only to find later the customer’s needs have not been adequately understood.

In order to mitigate the common problem of misunderstanding or not fully appreciating an end user’s need, Acquisition professionals should develop a statement of requirements, which will list and serve as a guide to the main requirements of the project. The Statement of Requirements provides:

- A brief and clear requirement specification for management purposes
- A statement of key objectives or "cardinal points" specification
- A description of the environment in which the requirement will work
- Background information and references to other relevant material associated with the end product
- Information on primary design constraints

Finally, ensure you have cross-referenced the requirements in the statement of requirements with those in the project definition report to ensure there is no mismatch.

General Rules for Successful Requirements Gathering
In order to give a project the highest chance for success, IPTs should, as stated earlier, develop comprehensive requirements. In order to ensure that the team stays on track when developing these requirements, it should consider the following:

- Start simple with the most important, key objectives up front. The main themes should be similar to a headline in a newspaper.
- Tie the key objectives to the instructions to offerors and the evaluation plan/factors.
- Directly ask the customer what they want out of the contract.
- Involve the end-users from the start through the end of the acquisition.
- Define and agree on the scope of the project with key stakeholders.
- Make sure requirements are SMART - specific, measurable, agreed upon, realistic and timely.
- Gain clarity to requirements.
- Create a clear, concise and thorough statement of requirements and share it with the customer.
- Confirm your understanding of the requirements alongside the customer (play them back).
- Avoid talking technology or solutions until all requirements are fully understood.
- Get agreement from all stakeholders before the project starts.
- Create a prototype, if necessary, to confirm or refine the customer’s requirements which will then be incorporated into the PWS/SOO.

Collaborate Within Your IPT and Get Key Stakeholder Buy-In
Collaboration within the IPT is essential to thoroughly document all of the requirements the customer is looking to obtain through any one procurement. As stated in the Business Analysis Body of Knowledge (BABok) (Page 155), the ten techniques for gathering requirements within the IPT are:

- Brainstorming
- Document Analysis
- Focus Group
- Interface Analysis
- Interview
- Observation
- Prototyping
You may need to use many of these techniques through the requirements definition phase. Once you have created your statement of requirements, ensure the end user and all other key stakeholders review and approve content and that they have a clear understanding that the requirements listed in the document will be the ONLY thing that the SOW/PWS/SOO will ask the contractor to deliver.

**Ensure Results are Traceable & Change Management is Trackable**

The contents of the statement of requirements should be stable or change relatively little throughout your planned procurement schedule and period of performance. If requirements are unstable or prone to rapid change, then an Agile approach to requirements gathering should be used.

**Understanding When to Use Which Requirements Document**

The most important thing to understand is when to use each type of requirements document: a SOW, PWS, or SOO. The below chart provides a good reference tool in determining the appropriateness of these documents.

<table>
<thead>
<tr>
<th>Statement of Work (SOW)</th>
<th>When to Use</th>
<th>Pros of Document</th>
<th>Cons of Document</th>
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<tbody>
<tr>
<td>Preparation of an effective SOW requires both an understanding of the goods or services that are needed to satisfy a particular requirement and an ability to define what is required in specific, performance-based, quantitative terms. A SOW prepared in explicit terms will enable offerors to clearly understand the government’s needs. This facilitates the preparation of responsive proposals and delivery of the required goods or services. This document should be utilized when the Government has either a deep knowledge of the work to be performed from prior experience or a deep technical knowledge of the all tasks and subtasks.</td>
<td>This document is very clear and concise. Industry partners will know what and how to perform work and will be able to provide the government with exactly what they require. There is little room for innovation from Industry and the government will receive a end product or service that is exactly what they are looking to obtain. It is the most easily measured document type because the government is telling the Contractor “what” and “how” to do something.</td>
<td>This document should not be utilized if the government does not know the product or service to be procured on a deep level. Using a SOW that does not have clear and complete requirements will lead to inaccurate proposals from Industry and will lead to increased threat of protests, longer evaluation times and the potential for unacceptable contract performance based on the fact that the contractor is only required to perform the work explicitly listed in the contract.</td>
<td></td>
</tr>
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<table>
<thead>
<tr>
<th>Performance Work Statement (PWS)</th>
<th>When to Use</th>
<th>Pros of Document</th>
<th>Cons of Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>The PWS should state requirements in general terms of what is to be done (the result), rather than how it is done (the method). The PWS gives the contractor maximum flexibility to devise the best method to accomplish the required result.</td>
<td>The PWS must be written to ensure that all offerors compete equally. The U.S. Government must remove any features that could restrict a potential offeror. However, the PWS must also be descriptive and specific enough to protect the interests of the U.S. Government and to promote competition. The clarity and explicitness of the requirements in the PWS will invariably enhance the quality of the proposals submitted. A definitive PWS is likely to produce definitive proposals, thus reducing the time needed for proposal evaluation. Allows for some Industry innovation to deliver goods and services that are both cost effective and technically sound.</td>
<td>When the government is not sure of what they are trying to accomplish, or conversely know exactly what and how they want something completed, this is not the right document to use. This document is not appropriate to use if the government feels like there may be dramatic changes in scope as the contract matriculates through completion as this would create an increase in administrative burden to the government and industry partner, increasing costs and reducing efficiencies. The PWS has performance measure that must be carefully thought-out in order to make them restrictive enough to...</td>
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### Using a Performance Work Statement (PWS)

#### Conduct an Analysis

Preparing a PWS begins with a job analysis. It involves a close examination of the customer’s requirements and tends to be a “bottom up” assessment with “reengineering” potential. This analysis is the basis for establishing performance requirements, developing performance standards, writing the PWS, and producing the quality assurance plan. Those responsible for the mission or program are essential to the performance of the job analysis.

A different approach to the analytical process is described in the Guidebook for Performance-Based Services Acquisition (PBA) in the Department of Defense. (Page 8) It describes three analysis-oriented steps that are top down in nature:

- **Define the desired outcomes:** What must be accomplished to satisfy the requirement?
- **Conduct an outcome analysis:** What tasks must be accomplished to arrive at the desired outcomes?
- **Conduct a performance analysis:** When or how will I know that the outcome has been satisfactorily achieved, and how much deviation from the performance standard will I allow the contractor, if any?

The IPT should consider the various approaches. Neither the OFPP nor DoD guide is mandatory; both simply describe an approach to analysis. Regardless of the analytical process adopted, the team’s task under step one is to develop certain information:

- A description of the requirement in terms of results or outcomes
- Measurable performance standards
- Acceptable quality levels (AQLs)

The AQL establishes the allowable error rate or variation from the standard. OFPP’s best-practices guide (Page 6) cites this example: In a requirement for taxi services, the performance standard might be “pick up within five minutes of an agreed upon time.” The AQL might then be five percent; i.e., the taxi could be more than five minutes...
late no more than five percent of the time. Failure to perform within the AQL could result in a contract price reduction or other action.

With regard to performance standards and AQLs, the IPT should remember that an option is to permit contractors to propose standards of service, along with appropriate price adjustment or other action. This approach fosters a reliance on standard commercial practices. (Remember that all these points - performance standards, quality levels, and price - are negotiable.)

**Apply the “So What?” Test**

“There is nothing so useless as doing efficiently that which should not be done at all.”

- Peter Drucker

An analysis of requirements is often, by its nature, a close examination of the status quo; that is, it is often an analysis of process and how things are done which is the type of detail that is not supposed to be in a PWS. The IPT needs to identify the essential inputs, processes, and outputs during job analysis. Otherwise, the danger is that contractors will bid back the work breakdown structure, and the agency will have failed to solicit innovative and streamlined approaches from the competitors.

One approach is to use the “So What?” Test during job analysis. For example, once job analysis identifies outputs, the IPT should verify the continued need for the output. The team should ask questions like: Who needs the output? Why is the output needed? What is done with it? What occurs as a result? Is it worth the effort and cost? Would a different output be preferable?

**Capture the Results of the Analysis in a Matrix**

As the information is developed, the IPT should begin capturing the information in a performance matrix. The Department of Treasury guide, *Performance-Based Service Contracting* (Page 11) illustrates a six-column approach with the following:

- **Desired Outcomes**: What do we want to accomplish as the end result of this contract?
- **Required Service**: What task must be accomplished to give us the desired result? (Note: Be careful this doesn't become a "how" statement)
- **Performance Standard**: What should the standards for completeness, reliability, accuracy, timeliness, customer satisfaction, quality and/or cost be?
- **Acceptable Quality Level (AQL)**: How much error will we accept?
- **Monitoring Method**: How will we determine that success has been achieved?
- **Incentives/Disincentives for Meeting or Not Meeting the Performance Standards**: What carrot or stick will best reward good performance or address poor performance? [This reflects priced and unpriced adjustments based on an established methodology. Reductions can be made for reduced value of performance]

The Treasury guide provides templates for help desk, seat management, systems integration, software development, and system design/business process re-engineering services.

The Department of Defense approach is very similar: take the desired outcomes, performance objectives, performance standards, and acceptable quality levels that have been developed during the analytical process and document them in a Performance Requirements Summary (PRS). The PRS matrix has five columns: performance objective, performance standard, acceptable quality level, monitoring method, and incentive. The PRS serves as the basis for the PWS.
**Write the Performance Work Statement**

There is not one standard, required template or outline for a PWS. The *Federal Acquisition Regulation* only requires that agencies:

- Describe the work in terms of the required results rather than either “how” the work is to be accomplished or the number of hours to be provided
- Enable assessment of work performance against measurable performance standards
- Rely on the use of measurable performance standards and financial incentives in a competitive environment to encourage competitors to develop and institute innovative and cost-effective methods of performing the work

In terms of organization of information, developing a PWS with the common SOW setup is suitable for a PWS:

- Introduction
- Background information
- Scope
- Applicable documents
- Performance requirements
- Special requirements (such as security)
- Deliverables

However, the team can adapt this outline as appropriate. Before finishing, there should be final checks:

- Examine every requirement carefully and delete any that are not essential
- Search for process descriptions or “how” statements and eliminate them

Many agencies have posted examples of performance-based solicitations that can provide some guidance or helpful ideas, and you can find many of these examples and samples in the [Steps to PBA Resource Library](#).

**Let the Contractor Solve the Problem, Including the Labor Mix**

**FIRST**, keep this important lesson learned in mind: Don’t spec the requirement so tightly that you get the same solution from each offeror.

**SECOND**, performance-based acquisition requires that the IPT usually must abandon some traditional approaches to buying services, like specifying labor categories, educational requirements, or number of hours of support required. Those are “how” approaches. Instead, let contractors propose the best people with the best skill sets to meet the need and fit the solution. The government can then evaluate the proposal based both on the quality of the solution and the experience of the proposed personnel. In making the shift to performance-based acquisition, remember this:

“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.”

- Albert Einstein

The Department of Defense addresses this in the [Guidebook for Performance-Based Services Acquisition (PBA) in the Department of Defense](#) (Page 11). The guide provides as follows:

“Prescribing manpower requirements limits the ability of offerors to propose their best solutions, and it could preclude the use 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.”

For some services, such practices are prohibited. Congress passed a provision (section 813) in the 2001 *National Defense Authorization*, which prescribes that, when acquiring information technology services, solicitations may not describe any minimum experience or educational requirements for proposed contractor personnel unless the contracting officer determines that needs of the agency either (1) cannot be met without that requirement, or (2) require the use of other than a performance-based contract.
THIRD., note there are times when more prescriptive language is required in a Performance Work Statement (PWS) or in a Statement of Objectives (SOO). For example, when acquiring services where lives are at stake, agencies may provide more details regarding what has to be done. Guard services typically follow an agency security plan and there are certain aspects to the work that cannot be left to contractor innovation. Further, services of this type will have 100 percent performance standards (any intrusion is unacceptable), whereas for most other service types, the price for perfection would be unaffordable.

Remember that how the PWS is written will either empower the private-sector to craft innovative solutions or limit that ability.

Using a Statement of Objectives (SOO)

As discussed previously, an alternative approach to development of the PWS is to develop a Statement of Objectives. FAR 37.602 requires that the SOO shall, at a minimum, include the following:

- Purpose
- Scope or mission
- Period and Place of Performance
- Background
- Performance Objectives (i.e., required results)
- Any Operating Constraints

The government-prepared SOO is usually incorporated into the solicitation.

Begin with the Acquisition’s “Elevator Message”

How many solicitations have you seen that begin with statements like, “This is a solicitation for a time-and-materials contract,” “The purpose of this solicitation is to acquire information technology hardware, software, and services” or “This is a performance-based specification to acquire services on a time-and-materials basis?” In the context of performance-based acquisition, all are bad starts.

The first statement made in a Statement of Objectives should be an explanation of how the acquisition relates to the agency’s program or mission need and what problem needs solving (as identified under step two).

For example, in a task order solicitation by the Veterans Benefits Administration, this statement was made, “The purpose of this task order is to obtain loan servicing in support of VA’s portfolio that will significantly improve loan guaranty operations and service to its customers.”

In this example, this simple statement was a signal that the acquisition had made a huge break from the predecessor contract, which had started with something like, “This is a requirement for information technology resources.” The turnaround was the realization that the need was for loan servicing support services; technology was the enabler.

Describe the Scope

A short description of scope in the SOO helps the competitors get a grasp on the size and range of the services needed. The Veterans Benefits Administration’s scope statement follows:

“The purpose of this [task order] is to provide the full range of loan servicing support. This includes such activities as customer management, paying taxes and insurance, default management, accounting, foreclosure, bankruptcy, etc., as well as future actions associated with loan servicing. This Statement of Objectives reflects current VA policies and practices, allowing offerors to propose and price a solution to known requirements. It is anticipated that specific loan servicing requirements and resulting objectives will change over the life of this order. This will result in VA modifying this order to incorporate in-scope changes.”
Another consideration for the IPT to consider is the budget authority (in dollars) available to fund the acquisition. In an acquisition approach as “wide open” as a Statement of Objectives, the competing contractors will need insight into funding authority so that they can size their solution to be both realistic and competitive. This may be listed as a constraint.

**Write the Performance Objectives into the SOO**

In step two, the task of the IPT was to decide what problem needs solving. The basis for that analysis was information in the agency’s strategic and annual performance plans, program authorization documents, budget documents, and discussions with project owners and stakeholders. That information constitutes the core of the Statement of Objectives.

In the case of the Veterans Administration, for example, the acquisition performance objectives were set forth in this opening statement:

> “VA expects to improve its current loan servicing operations through this task order in several ways. Primary among these is to increase the number and value of saleable loans. In addition, VA wants to be assured that all payments for such items as taxes and insurance are always paid on time. As part of these activities, the VA also has an objective to improve Information Technology information exchange and VA’s access to automated information on an as required basis to have the information to meet customer needs and auditors’ requirements.”

What is immediately obvious is that these are mission-related, measurable objectives.

**Make Sure the Government and the Contractor Share Objectives**

When the acquisition objectives are grounded in the agency plans and objectives then the government and the contractor are clearly working in a partnership toward shared goals. This is different from the traditional acquisition approach, characterized by driving cost down and then berating the supplier to demand delivery. When the agency and the contractor share the same goals, the likelihood of successful performance rises dramatically.

**Identify the Constraints**

The purpose of a SOO is to provide contractors with maximum flexibility to conceive and propose innovative approaches and solutions. However, in some cases, there may be constraints that the government must place on those solutions. For example, core financial systems used by federal agencies must comply with requirements of OMB Circular A-127 and the guidance of the Joint Financial Management Improvement Program. Acquisitions related to technology will need to conform to the agency’s information technology architecture and accessibility standards. In addition, there may be considerations of security, privacy, and safety that should be addressed. There may also be existing policies, directives, and standards that are constraining factors. The IPT should work with program managers, staff, customers, and stakeholders to identify these and to confirm their essentiality.

**Develop the Background**

The background and current environment set forth in a Statement of Objectives comprise important information for contractors. The Veterans Benefits Administration’s Statement of Objectives included sections on:

- VA loan servicing history
- Current VA Portfolio Origination/Acquisition Process
- Overview of the Current Servicing Process

A best practice when using a SOO is to provide a brief overview of the program, listing links to web-delivered information on the current contract (if SOO is for a follow-on contract), government-controlled,
government-furnished equipment, and a hardware configuration or enterprise architecture. The development of this information is essential so that contractors can perform meaningful due diligence.

**Make the Final Checks and Maintain Perspective**

Before finalizing the document, the IPT should examine the entire SOO carefully and delete anything that is not essential.

The IPT should always examine requirements critically to ensure that they are pertinent and fully capture the intent of the work to be performed. New processes take time to perfect and require ongoing experimentation and innovation.

**PALT Reminders for Requirements Gathering**

- Leverage IPT to reduce PALT
- Ensure only technical experts develop requirements
- CO should work with technical experts to ensure requirements are in the right format
- SOW should tell what needs to be done as well as how
- SOO should give general description of outcomes to allow Industry to develop the how and what
- PWS should tell Industry what the goals are, but not the how
- If possible, requirements gathering should be done in person, with all teammates present to reduce PALT
- Leverage existing samples and best practices used by other agencies by searching the [Steps to PBA Resource Library](#) or the Acquisition Gateway's [Document Library](#)
STEP 5 - Define Performance Measures

Developing an approach to measuring and managing performance is a process that requires consideration of many factors: performance standards and measurement techniques, performance management approach, incentives, and more. This component of performance-based contracting is as important as developing the Performance Work Statement (PWS) or the Statement of Objectives (SOO), because this step establishes the strategy of managing the contract to achieve planned performance objectives.

**Review the Success Determinants**

In Step 2, the Integrated Project Team (IPT) established a vision of what will constitute success for the project by answering two distinct questions: Where do I want to go, and how will I know when I get there?

The task now is to build the overall performance measurement and management approach on those success determinants.

**Rely on Commercial Quality Standards**

Rather than inventing metrics or quality or performance standards, the IPT should use existing commercial quality standards (identified during market research), such as International Standards Organization (ISO) 9000 or the Software Engineering Institute’s (SEI) Capability Maturity Models®.

ISO has established quality standards (the ISO 9000 series) that are increasingly being used by US firms to identify suppliers who meet the quality standards. ISO 9001 2000 refers to a set of new quality management standards which apply to all kinds of organizations in all kinds of areas. Some of these areas include manufacturing, processing, servicing, printing, electronics, computing, legal services, financial services, accounting, banking, aerospace, construction, textiles, publishing, energy, telecommunications, research, health care, utilities, aviation, food processing, government, education, software development, transportation, design, instrumentation, communications, biotechnology, chemicals, engineering, farming, entertainment, horticulture, consulting, insurance, and so on.

The Carnegie Mellon Software Engineering Institute¹, a federally funded research and development center, has developed Capability Maturity Models® (CMM) to “assist organizations in maturing their people, process, and technology assets to improve long-term business performance.” SEI has developed CMMs for software, people, and software acquisition, and assisted in the development of CMMs for Systems Engineering and Integrated Product Development:

- CMMI® Capability Maturity Model-Integration for Software
- P-CMM People Capability Maturity Model
- SA-CMM Software Acquisition Capability Maturity Model
- SE-CMM Systems Engineering Capability Maturity Model
- IPD-CMM Integrated Product Development Capability Maturity Model
- PALT Recommendations

The Capability Maturity Models express levels of maturation; the higher the number, the greater the level of maturity. There are five levels. Solicitations that require CMMs typically specify only level two or three.

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¹ As part of its mission to transition mature technology to the software community, the SEI has transferred CMMI-related products and activities to the CMMI Institute http://cmmiinstitute.com/cmmi-models, a 100%-controlled subsidiary of Carnegie Innovations, Carnegie Mellon University’s technology commercialization enterprise.
The IPT can incorporate such commercial quality standards in the evaluation and selection criteria.

**Contractor Proposed Metrics and Quality Assurance Plan**

One widely used approach is to require the contractor to propose performance metrics and the Quality Assurance Plan (QAP), rather than have the government develop it. This is especially suitable when using a Statement of Objectives (SOO) because the solution is not known until proposed. With a SOO, offerors are free to develop their own solutions, so it makes sense for them to develop and propose a QAP that is tailored to their solution and commercial practices. If the agency were to develop the QAP, it could very well limit what contractors can propose.

As the IPT considers what is required in a QAP, it may be useful to consider how the necessity for quality control and assurance has changed over time, especially as driven by acquisition reform. In short, QAPs were quite necessary when federal acquisition was dominated by low-cost selections. Think about the incentives at work: To win award but still protect some degree of profit-margin, the contractor had to shave his costs, an action that could result in use of substandard materials or processes. With best-value selection and an emphasis on past-performance evaluation and reporting, entirely different incentives are at work.

The regulations have changed to some degree to reflect this reality. FAR 46.102 provides that contracts for commercial items “shall rely on a contractor’s existing quality assurance system as a substitute for compliance with government inspection and testing before tender for acceptance unless customary market practices for the commercial item being acquired permit in-process inspection.”

Air Force Instruction 63-124 (1 August 2005) addresses the concept of a performance plan and metric:

1.4.4 - A Performance Plan. The performance plan is an evolving document whose development begins with acquisition planning, and finalized as the acquisition progresses. The members of the multi-functional team sign the performance plan. Award Fee plans containing the elements below qualify as the performance plan. The plan identifies:

1.4.4.1 - Objective(s) in having the service provided, i.e., to provide quality housing maintenance to military members.

1.4.4.2 - Results the multi-functional team is striving to achieve in managing the acquisition, e.g., cost savings, efficiencies, and improved customer service.

1.4.4.3 - A distribution of the roles and responsibilities among the multifunctional team members.

1.4.4.4 - A strategy, methods and tools the multi-functional team will use to assess the contractor’s performance against the performance thresholds, measurements, metrics, and incentives identified in the contract. Performance thresholds must be measurable in terms of quality and timeliness of performance.

1.4.4.5 - A management approach, methods and tools the multifunctional team will routinely use to validate the objectives and goals identified as part of the Performance Plan, i.e. benchmarking, etc.

1.4.4.6 - An incentive plan may be the management approach, methods and tools used to validate the objective and goals of the multi-functional team.

1.4.5 - Performance metrics are to be used to track contractor progress towards meeting stated performance objectives. The multi-functional team in assessing contractor performance validates that the performance metrics align with the performance-based work statement and overall mission support objectives.

Remember the following key aspects. Performance metrics are negotiable and, wherever possible, address quality concerns by exception not inspection. Also, when contractors propose the metrics and the QAP, these become helpful discriminators among the proposals in best-value evaluation and source selection.
Select Only a Few Meaningful Success Measures

Whether the measures are developed by the proposing contractor or by the IPT, it is important to limit the measures to only those that are most important and directly tied to the program objectives. If you develop too many measures it will likely result in an increase to contract cost, increased government oversight, and an overly burdensome contract for the Industry partner. The measures should be selected with some consideration of cost. For example, the team will want to determine that the cost of measurement does not exceed the value of the information, and that more expensive means of measurement are used for only the most risky and mission-critical requirements.

The Oak Ridge Institute for Science and Education (ORISE), run in part by the US Department of Energy (DOE) and Oak Ridge Associated Universities (ORAU) states that most performance measures can be grouped into one of the following six general categories. However, certain organizations may develop their own categories as appropriate depending on the organization’s mission:

- **Effectiveness**: A process characteristic indicating the degree to which the process output (work product) conforms to requirements. (Are we doing the right things?)
- **Efficiency**: A process characteristic indicating the degree to which the process produces the required output at minimum resource cost. (Are we doing things right?)
- **Quality**: The degree to which a product or service meets customer requirements and expectations.
- **Timeliness**: Measures whether a unit of work was done correctly and on time. Criteria must be established to define what constitutes timeliness for a given unit of work. The criterion is usually based on customer requirements.
- **Productivity**: The value added by the process divided by the value of the labor and capital consumed.
- **Safety**: Measures the overall health of the organization and the working environment of its employees. Each measure should relate directly to the objectives of the acquisition.

Contractual Language for Changes to the Metrics

One important step the IPT can take is to reserve the right to change the metrics and measures. One effective way to do this is for the agency and the contractor to meet regularly (at least yearly, but ideally quarterly) to review performance and ensure that the measures still reflect the goals of the contract. The guiding question at each meeting should be, “Are we measuring the right thing?”

This requires that the contractual documents include such provisions as value engineering change provisions, share-in-savings options, or other provisions preserving the government’s right to review and revise.

Contract-Type Order of Precedence

FAR 37.102(a) states that there is an order of preference in contract types used for performance-based contracting, as follows:

1. A firm-fixed price performance-based contract or task order
2. A performance-based contract or task order that is not firm-fixed price
3. A contract or task order that is not performance-based

Agencies must take care implementing this order of precedence. Be aware 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 states, 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.

Clearly, the decision about the appropriate type of contract to use is closely tied to the agency’s need and can go a long way to motivating superior performance -- or contributing to poor performance and results. Market research, informed business decision, and negotiation will determine the best contract type.

The decision on contract type is not necessarily an either-or choice. Hybrid contracts - those with both fixed-price and cost-type contract line items are common. The Congressional Research Service wrote a report in 2014 to explain to Congress the various pros and cons of each contract type.

**Use Incentive-Type Contracts**

Although determining the type of contract to use is often the first type of incentive considered, it is important to understand that contract type is only part of the overall incentive approach and structure of a performance-based acquisition. Other aspects have become increasingly important as agencies and contractors have moved closer to partnering relationships.

Contract types differ in their allocation and balance of cost, schedule, and technical risks between government and contractor. As established by FAR Part 16 (Types of Contracts), contract types vary in terms of:

- The degree and timing of the risk and responsibility assumed by the contractor for the costs of performance
- The amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals

The government’s obligation is to assess its requirements and the uncertainties involved in contract performance and select from the contractual spectrum a contract type and structure that places an appropriate degree of risk, responsibility, and incentives on the contractor for performance.

At one end of the contractual spectrum is the firm-fixed-price contract, under which the contractor is fully responsible for performance costs and enjoys (or suffers) resulting profits (or losses) placing the highest level of risk on the contractor. At the other end of the spectrum is the cost-plus-fixed-fee contract, in which allowable and allocable costs are reimbursed and the negotiated fee (profit) is fixed; consequently, the contractor has minimal responsibility for, or incentive to control, performance costs, resulting in elevated risk to the government. In between these extremes are various incentive contracts, including:

- Fixed-price incentive contracts: Final contract price and profit are calculated based on a formula that relates final negotiated cost to target cost. These may be either firm target or successive targets.
- Fixed-price contracts with award fees: Used to motivate contractor performance when it cannot be measured objectively, making other incentives inappropriate.
- Cost-reimbursement incentive contracts: Used when fixed-price contracts are inappropriate, due to uncertainty about probable costs. These may be either cost-plus-incentive-fee or cost-plus-award-fee.

Use of certain types of incentives may be limited by availability of funds. Fortunately, there are other types of incentives that can be tailored to the acquisition and performance goals, requirements, and risks. For example, agencies can also incorporate delivery incentives and performance incentives; the latter related to contractor performance and/or specific products’ technical performance characteristics, such as speed or responsiveness. Incentives are based on meeting target performance standards, not minimum contractual requirements. These incentives can be made publically available in the form of the Contractor Performance Assessment Reporting System (CPARS), Past Performance Evaluations, and Past Performance Questionnaires, which highly incentivize Industry partners to perform at the highest quality level possible, as a negative review can significantly impact their ability to pursue other contracts.
Consider Award Term

**Award term** is a contract performance incentive feature that ties the length of a contract’s term to the performance of the contractor. The contract can be extended for good performance or reduced for poor performance. An award term incentive is considered an indirect financial reward.

Award term is a contracting tool used to promote efficient and quality contractor performance. In itself, it is not an acquisition strategy, nor is it a performance solution. As with any tool, its use requires planning, implementation, and management/measurement to ensure its success in incentivizing contractors and improving performance.

The award term feature is similar to award fee ([FAR 16.405-2](https://www.acq.osd.mil/far.html)) contracting where contract performance goals, plans, assessments, and awards are made regularly during the life of a contract. Award term solicitations and contracts should include a base period (e.g., 1 years) and a maximum term (i.e. 5 years), similar to quantity estimates (minimum and maximum) used in indefinite quantity/indefinite delivery contracts for supplies ([FAR 16.504](https://www.acq.osd.mil/far.html)).

When applying the award term feature, agencies need to identify and understand the project or task:

- Conditions, constraints, assumptions, and complexities
- Schedule, performance, and cost critical success factors
- Schedule, performance, and cost risks

They also need to understand marketplace conditions and pricing realities. Only then can agencies establish meaningful and appropriate schedule, performance, and cost measures/parameters for a specific contract. These measures must be meaningful, accurate, and quantifiable to provide the right incentives and contract performance results. Specifics need to be incorporated and integrated in an award term plan.

Award term is best applied when utilizing performance or solution-based requirements where a PWS or SOO describes the agency’s required outcomes or results (the “what” and “when” of the agency’s requirement) and where the contractor has the freedom to apply its own management and best performance practices (the “how” of the requirement) towards performing the contract. The award term plan must specify success measurement criteria, regarding how performance will be measured (i.e. defines what is “good” or “poor” performance) and the award term decision made.

There should also be a clear indication of the consequences of various levels of performance in terms of the contract’s minimum, estimated, and maximum terms; the agency needs to be prepared to follow up with those consequences. If contractor performance is below the standard set, the contract ends at the completion of the base period. The agency must be prepared to re-procure in a timely fashion.

The effort applied in managing an award term contract after award is critical. Too often, agencies and contractors don’t invest the right people (numbers and skills) and management attention during the contract performance phase. Managing contracts with features like award term is not a last minute, incidental, or a fill-out-a-survey job. As in the case of the award fee approach, communication needs to be constant and clear with contractors, and not include so many evaluation elements that it dilutes the critical success factors.

Consider Other Incentive Tools

Incentives can be monetary or nonmonetary. They should be positive, but include remedies, as appropriate, when performance targets or objectives are missed.

Creating an incentive strategy is much the same as crafting an acquisition strategy. There is no single, one-size-fits-all approach; instead, the incentive structure should be geared to the acquisition, the characteristics of the marketplace, and the objectives the government seeks to achieve. While cost incentives are tied to a degree to contract-type decisions, there are other cost and non-monetary incentives for the IPT to consider, such as:

- Contract length considerations (options and award term)
- Strategic supplier alliances
- Performance-based payments
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Updated: March 14, 2019

- Performance incentive bonus
- Schedule incentives
- Past performance evaluation
- Agency "supplier of the year" award programs
- Competitive considerations
- Non-Performance remedies
- Value engineering change provisions
- Share-in-savings strategies
- Letters of commendation

Remember that performance incentives are negotiable. Developing an incentive strategy is an important aspect to developing a comprehensive PWS.

**Profit is Still a Performance Incentive**

The real opportunity is making it work to both the government and contractor’s benefit. For example, link the incentive program to the mutually agreed-upon contract performance measures and metrics. Then, incorporate value engineering change provisions (VECP) or share-in-savings strategies that reward the contractor for suggesting innovations that improve performance and reduce total overall cost.

Set up the acquisition so that a contractor and the government can benefit from economies, efficiencies, and innovations delivered in contract performance. If the incentives are right, and if the contractor and the agency share the same goals, risk is largely controlled and effective performance is almost the inevitable outcome. This approach will help ensure that the contractor is equally concerned - motivated by the desire to achieve all available award fees and award terms - about every element of contract performance.

**Most Importantly, Consider the Relationship**

With regard to overall approach to contract performance management, the IPT should plan to rely less on management by contract and more on management by relationship. At its most fundamental level, a contract is much like a marriage. It takes work by both parties throughout the life of the relationship to make it successful. Consider, for example, the public-private partnerships with the Custom and Border Protection. Other examples exist, but they all share the same common characteristics:

- Trust and open communication
- Strong leadership on both sides
- Ongoing, honest self-assessment
- Ongoing interaction
- Creating and maintaining mutual benefit or value throughout the relationship

There are several means to shift the focus from management by contract to management by relationship. For example, plan on meeting with the contractor to identify ways to improve efficiency and reduce the effect of the cost drivers. Sometimes agencies require management reporting based on policy without considering what the cost of the requirement is. For example, in one contract, an agency required that certain reports be delivered regularly on Friday. When asked to recommend changes, the contractor suggested that report due date be shifted to Monday because weekend processing time costs less. An example is requiring earned-value reporting on every contractual process. For tasks of lesser risk, complexity, and expense, a less costly approach to measuring cost, schedule, and performance can be used. This type of collaborative action will set the stage for the contractor and government to work together to identify more effective and efficient ways to measure and manage the program.

Another effective means is to establish a Customer Process Improvement Working Group that includes contractor, program, and contracting representatives. This works especially well when the IPT’s tasks migrate into contract performance and they take part in the working group. These meetings should always start with the question, are we measuring the right thing?
For major acquisitions, the team can consider the formation of a higher-level executives comprised of top officials from the government and the successful awardee with a formal charter that requires continual open communication, self-assessment, and ongoing interaction.

The intent to manage by relationship should be documented in a contract administration plan that lays out the philosophies and approach to managing this effort, placing special emphasis on techniques that enhance the ability to adapt and incorporate changes.

**PALT Reminders for Deciding How to Measure and Manage Performance**

- Directly relate performance measures to specific requirements
- Be as specific as possible on what performance measures entail
- Provide appropriate AQLs
- Limit the number of performance measures to only those items that are critical for the success of the contract
STEP 6 - Source Selection

Developing an acquisition strategy that will lead to selection of the right contractor is especially important in performance-based acquisition. The contractor must understand the performance-based approach, know or develop an understanding of the agency’s requirement, have a history of performing exceptionally in the field, and have the processes and resources in place to support the mission. This goes a long way to successful mission accomplishment. In fact, selecting the right contractor and developing a partnership automatically solves many potential performance issues.

Small firms can be nimble, quick thinking, and very dedicated to customer service. While there is a cost in proposing solutions, a small business with a good solution can win and be very successful with performance-based awards.

While there are many aspects to crafting an acquisition strategy, among the most important for performance-based acquisition are to compete the solution, use downselection and due diligence, evaluate heavily on past performance information, and make a best-value source selection decision.

Complete the Solution

Too many government-issued statements of work try to solve the problem. In such cases, the agency issues a detailed SOW, often with the assumption that the tighter the specifications the better, without realizing that this approach increases the government’s risk. The agency SOW establishes what to do, how to do it, what labor categories to provide, what minimum qualifications to meet, and how many hours to work. The agency then asks vendors to respond with a mirror image of the specifications in the proposal. The result is that the competing vendors bid to the same government-directed plan, and the agency awards the contract to the company with the best proposal writers not the best ideas.

Structure the acquisition so that the government describes the problem that needs to be solved and vendors compete by proposing solutions. As with pricing structures, government requirements can be written as a hybrid or combination of PWS, SOO and SOW. The quality of the solution and the performance measures become discriminators in best-value evaluation.

Use Down-selection and Due Diligence

Responding to a performance-based solicitation, especially a SOO that seeks contractor-developed solutions, is substantial work for contractors. Likewise, evaluation of what may be significantly different approaches or solutions is much more substantial work for the integrated project team. The team will have to understand the contractor-proposed solutions, assess the associated risks and likelihood of success, identify the discriminators, and do the best-value tradeoff analysis.

Because of this, the acquisition strategy should consider some means of down-selection or limiting the competitive pool, so that only those contractors with a significant likelihood of winning an award will go through the expense of developing proposals. As to the IPT, evaluating dozens of solution-type proposals would be overly burdensome.

Down-selection is a means of limiting the competitive pool to those contractors most likely to offer a successful solution. There are two primary means of down-selection in current acquisition methodology: (1) using the Federal Supply Schedules (FSS) Multiple Award Schedule (MAS) competitive process and (2) using the fair opportunity competitive process under an existing Government-wide Agency Contract (GWAC) or multiple-award contract (MAC).
Even in full and open competitions, there are means of limiting the competitive pool - providing competition as well as efficiency and cost effectiveness for the government and contractors as well. Many in the acquisition community are familiar with the establishment of a competitive range. But there are other techniques: using the multi-step advisory process in a negotiated procurement, which is a variation of two-step sealed bidding in FAR 14.5. All these methods provide a means to establish a small pool of the most qualified contractors, competing to provide the solution. In each case, the approach leverages competition previously conducted. Once the competing pool of contractors is established, those contractors enter a period called due diligence. The actual competitive down-select strategy to be employed will vary based on the unique circumstances of the particular acquisition. Some examples of DoD acquisitions using a "down-select" process to choose the final contractor(s) may be found in the callouts to the right.

**Due diligence** is used in acquisitions to describe the period and process during which competitors take the time and make the effort to become knowledgeable about an agency’s needs in order to propose a competitive solution. It usually includes site visits, meetings with key agency people, and research and analysis necessary to develop a competitive solution tailored to agency requirement. It is recommended that due diligence sessions are scheduled with interested vendors over a small and specific period of time. During this time, the competing contractors must have access to the IPT and program staff so that the contractors can learn as much as possible about the requirement. It is a far more open period of communication than is typical in more traditional acquisitions.

**Use Oral Presentations and Other Opportunities to Communicate**

Oral presentations streamline evaluations (characterized by real-time interactive dialogue). These presentations provide information about the contractor’s management and/or technical approach that the IPT will use in evaluation, selection, and award.

Agencies have said that oral presentations remove the screen that professional proposal writers can erect in front of key personnel. The IPT should require that the project manager and key personnel (those who will do the work) make the presentations. This gives agency evaluators an opportunity to see part of the vendor-proposed solution team, to ask specific questions, and to gauge cohesiveness.

Statements made in oral presentations are not binding unless written into the contract. Oral presentations should be recorded in order to allow TEB members to reference the presentations during evaluations, and to verify the statements in the oral presentations were derived from the proposal. Additionally, it should be made clear to the offerors that the government will not disclose strengths, weaknesses, etc. of their proposal during oral presentations.

Communication with offerors is an important element of selecting the right contractor. Despite this fact, it is common in negotiated procurements to announce the intent to award without discussions.

Given the complexities associated with performance-based proposals (i.e., different approaches and different performance metrics), it is nearly impossible to award without conducting discussions. While it may reduce time, it is important to use discussions to fully understand the quality of the solution, the pricing approach, incentive structure, and even the selection itself.

**Emphasize Past Performance in Evaluation**

A contractor’s past performance record is arguably the key indicator for predicting future performance. As such, it is to the agency’s advantage to use past performance in evaluating and selecting contractors for award. Evaluation of past performance is particularly important for service contracts. Properly conducted, the collection and use of such information provides significant benefits. It enhances the government’s ability to predict both the performance quality and customer satisfaction. It also provides a powerful incentive for current contractors to maximize performance and customer satisfaction.

Past performance information can come from multiple sources. The two most familiar methods are asking the offerors to provide references and seeking information from past performance information databases. The Past
Performance Information Retrieval System, or PPIRS, is the Government-wide repository for past performance information. It ties together a number of databases formerly independent of one another.

There are other means of obtaining past performance information for evaluation. One very important means is through market research. Call counterparts in other agencies with similar work and ask them for the names of the best contractors they’ve worked with. Are there industry awards in the field of work? Who has won them? In fact, ask offerors to identify their awards and events of special recognition. Look for industry quality standards and certifications, such as ISO 9000 and SEI CMM® (discussed in Step 5). Ask offerors what they do to track customer satisfaction and to resolve performance issues. Is there an established and institutionalized approach? In short, the IPT must take past performance more seriously than just calling a few references. Make the answers to these questions part of the request for proposals. Rather than have a separate past performance team, integrate this evaluation into the technical and management proposal evaluation effort.

When used in the source selection evaluation process, past performance evaluation criteria must provide information that allows the source selection official to compare the “quality” of offerors against the agency requirement and assess the risk and likelihood of success of the proposed solution and success of contractor performance. This requires the information to be relevant, current and accurate.

For example, the information requested of the contractor and evaluated by the IPT 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

The answers to the above list provide the source selection authority with information to make a comparative assessment for the award decision.

Use Best-Value Evaluation and Source Selection

Best-Value is a process used to select the most advantageous offer by evaluating and comparing factors in addition to cost or price. It allows flexibility in selection through tradeoffs which the agency makes 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 its money.

Note that “the rules” for the best-value and tradeoff process (and the degree of documentation required) depend on two factors: the rules for the specific acquisition process being used and the rules the agency sets in the solicitation. For example, when conducting a negotiated procurement, the complex processes of FAR Subpart 15.1, “Source Selection Processes and Techniques,” and FAR Subpart 15.3, “Source Selection,” apply. When using federal Supply Schedule contracts, the simpler provisions at FAR 8.404 apply.

The IPT 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 on contracts of similar size, scope, and complexity)
- Past experience (what the contractor has done)
The Government Accountability Office acknowledges broad agency discretion in selection; therefore, the integrated solution team evaluators and the source selection authority should expect to exercise good judgment. Best-value source selection involves subjective analysis. It cannot, and should not, be reduced to a mechanical, mathematical exercise. The following, from GAO protest decision B-284270, reflects just how broad agency discretion is.

- Source selection officials have broad discretion to determine the manner and extent to which they will make use of the technical and price evaluation results in negotiated procurements.
- In deciding between competing proposals, price/technical/past performance tradeoffs may be made; the propriety of such tradeoffs turns not on the difference in technical scores or ratings per se, but on whether the source selection official’s judgment concerning the significance of that difference was reasonable and adequately justified in light of the RFP evaluation scheme.
- The discretion to determine whether the technical advantages and/or past performance associated with a higher-priced proposal are worth the price premium if the evaluation criteria is written that price is equal to or more important than other factors in the evaluation scheme.
- In a best-value procurement, an agency’s selection of a higher-priced, higher-rated offer should be supported by a determination that the technical superiority and/or past performance of the higher-priced offer warrants the additional cost involved.

The Defense Acquisition University has an article discussing Best Value, including: the laws, statutes and policy regarding this source selection technique, and the proper time to use this options.

**Assess Solutions for Conflict of Interest Issues**

An organizational conflict of interest (COI) exists when a contractor is or may be unable or unwilling to provide the government with impartial or objective assistance or advice. It is important to note that an actual conflict of interest does not need to exist for a contractor to be excluded from competition, rather only the appearance of a COI is necessary to limit the competition in these situations.

While concerns about organizational conflict of interest are important, they should be tempered by good business sense. For example, sometimes software development is done in stages. An organizational conflict of interest would suggest that the contractor that does the initial systems design work be precluded from the follow-on code development due to unfair competitive advantage. However, this would also mean that the agency is excluding from consideration the contractor with the best understanding of the requirement. In this case, perhaps the acquisition approach should be reconsidered to allow the definer of the requirements to continue with the development.

**PALT Reminders for Considering the Right Contractor**

- CO/CS should immediately check all proposals for pass/fail criteria, if applicable, once submitted and prior to beginning the technical evaluation.
- Pertinent IPT members, deemed so by the Source Selection Authority (SSA) should all be included in technical evaluations.
- If possible, technical evaluations should occur in person, with all evaluators in one location.
- One person should keep notes of all evaluations for the consensus report.
- CO should be involved during the entire process to be able to write a concise and defendable consensus report.
STEP 7 - Manage Performance & Solutions

Correctly managing performance may be the most important step to successful performance-based acquisitions. 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.

The contractor must be part of the acquisition team itself - a reality recognized by the guiding principles of the federal acquisition system. 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. This goes to the heart of the need to maintain sufficient core capability in the federal government to manage its programs. If the contractor is flying blind in performance, then the agency will soon fly blind and without landing gear when the contract is over.

This step, contract performance, is guided far less by law, regulation, and policy than those described in the preceding steps. To a large degree, the management of contract performance is guided by the contract’s terms and conditions and is achieved with the support of the business relationships and communications established between the contractor and the IPT. It is in the best interest of all parties concerned that the contract be successful.

**Keep the Team Together**

To be successful in performance-based acquisition, the agency must retain at least a core of the Integrated Project Team (IPT) on the project for 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. Contract award is not the final measure of success. Effective and efficient contract performance that delivers a solution is the goal. The team should stay together to see that end reached.

Acquisition team members are expected to collaborate with all requisite external organizations in order to provide the best possible service to the citizens. The most notable example, 30 years in the making, is the USDA’s food stamp program. The federal government collaborated with state and local governments, banks, and supermarkets to move away from the paper food stamps to debit cards. This has not only helped ease the “stigma” of the food stamps but has significantly reduced fraud.

**Adjust Roles and Responsibilities**

Often the members of the acquisition team take on new roles during the contract performance phase. Typically, these responsibilities are shared between the program office and contracting office. Given that the purpose of any acquisition (in part) is “to deliver on a timely basis the best value product or service to the customer” (FAR 1.102), meeting this objective requires the continued involvement of the program office in duties classified as contract administration as well as those more accurately described as program (or project) management.

Program management is the process of managing several related projects, often with the intention of improving an organization’s performance. In practice, and in its aims, it is often closely related to systems engineering, industrial engineering, change management and business transformation.

The program manager has oversight of the purpose and status of the projects in a program and can use this oversight to support project-level activity to ensure the program goals are met by providing a decision-making capacity that cannot be achieved at project level or by providing the project manager with a program perspective.
when required, or as a sounding board for ideas and approaches to solving project issues that have program impacts. In a program there is a need to identify and manage cross-project dependencies and often the project management office (PMO) may not have sufficient insight of the risk, issues, requirements, design or solution to be able to usefully manage these. The program manager may be well placed to provide this insight by actively seeking out such information from the project managers although in large and/or complex projects, a specific role may be required.

However this insight arises, the program manager needs this in order to be comfortable that the overall program goals are achievable. The program manager and contracting officer should work very closely to monitor performance measures, AQLs, and CPARS as well as invoicing issues and acceptable completion of deliverables.

Assign Accountability for Managing Contract Performance

Just as important as keeping the team together is assigning roles and responsibilities to the parties. Contracting officers have certain responsibilities that can’t be delegated or assumed by the other members of the team. These include making any commitment relating to an award of a task, modification, or contract; negotiating technical or pricing issues with the contractor; or modifying the stated terms and conditions of the contract. Some roles and responsibilities are decreed for example, agencies are required to establish capability and training requirements for Contracting Officer's Representatives (CORs).

Make sure the people assigned the most direct roles for monitoring contract performance have read and understand the contract and have the knowledge, experience, skills, and ability to perform their roles. In performance-based organizations, they are held accountable for the success or failure of the program they lead. They should know the program needs in depth, understand the contractor’s marketplace, have familiarity with the tools the contractor is using to perform, have good interpersonal skills... and the capability to disagree constructively. Enhanced professionalism in contract performance management is on the horizon. In November 2003, the Services Acquisition Reform Act (SARA) was passed with a number of noteworthy provisions. As called for in SARA, a fund has been established (in FY2005) to ensure government program managers are properly trained and certified to manage large projects. The fund is managed under the direction of the Office of Federal Procurement Policy (OFPP) and the Federal Acquisition Institute’s Board of Directors. Certified project managers’ names will appear on OMB Form 300 submissions (Page 16). Information on certification programs can be found at FAI.org. These requirements are part of a larger effort to link budget to performance, and to improve project management in order to reduce or eliminate wasteful spending.

Add the Contractor to the Team at a Formal Kick-Off Meeting

It is often advisable - and sometimes required by the contract - to conduct a kick-off meeting or, more formally, a post-award conference, attended by those who will be involved in contract performance. Even though a post-award conference may not be required by the contract, it is a good idea for performance-based contracts. This meeting can help both agency and contractor personnel achieve a clear and mutual understanding of contract requirements and further establish the foundation for good communications and a win-win relationship.

It is very important that the contractor partner with the IPT, and that agency and contractor personnel work closely together to fulfill the mission and program needs.

Apply the Six Disciplines of Performance-Based Management™

Performance-based acquisition requires “a uniquely disciplined approach to managing contract performance and to program management - one that is laser focused on strategic mission outcomes and results.” In short, performance-based acquisition requires performance-based management, concludes an Acquisition Solutions® Advisory, and the application of certain disciplines to the process. You must align your organization strategically, prepare your people, make sure everyone understands the “rules” and their roles, set up good communications
processes, recognize that there will be risk to be managed, and put in place a framework for measuring performance that lets you understand where you’ve been, where you are, where you need to go—and why. The six disciplines are:

1. **Cultural Transformation**: Proactively manage the organizational and cultural changes integral to the success of the initiative
2. **Strategic Linkage**: Provide 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
6. **Performance Monitoring**: Analyze and report status—cost, schedule, and performance on a regularly scheduled basis during project execution

Applying these disciplines to contract management helps drive performance and results throughout an agency’s culture and business operations and enhances the achievement of mission results.

**Regularly Review Performance in a Contract Performance Improvement Working Group**

Performance reviews should take place regularly, and that means much more than the annual “past performance” reviews required by regulation. These are contract management performance reviews, not for formal reporting and rebutting, but for keeping the project on course, measuring performance levels, and making adjustments as necessary. For most contracts, monthly or bi-monthly performance reviews would be appropriate. For contracts of extreme importance or contracts in performance trouble, more frequent meetings may be required.

Measuring and managing a project to the attainment of performance goals and objectives requires the continued involvement of the acquisition team, especially the program manager. It also requires considerable involvement by the acquisition team’s new members - contractor personnel.

**Ask the Right Questions**

It is important to keep the focus of the meetings on improving performance, not evaluating people. Each meeting should start with the questions, “Are we measuring the right thing?” and “How are we doing?” It is important to continually revisit the success measures the team identified during Step Two. Other important questions are:

- 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?

There should be time in each meeting where the agency asks, “Is there anything we are requiring that is affecting the job you can do in terms of quality, cost, schedule, or delivering the solution?” Actions discussed should be recorded for the convenience of all parties, with responsibilities and due dates assigned.

**Report on the Contractor’s Past Performance**

There are many types of performance reporting that may be required of the IPT. For example, agency procedures may establish special requirements for acquisition teams to report to the agency’s investment review board regarding the status of meeting a major acquisition’s cost, schedule, and performance goals (as required by the Federal Acquisition Streamlining Act of 1994). The team may also be responsible for performance reporting under the Government Performance and Results Act of 1993 (GPRA), if the contractor’s performance directly supports a GPRA performance goal.Refer to internal agency guidance on these processes.
However, one type of performance reporting requirement (evaluation of the contractor’s performance) is dictated by the contract terms and conditions and by FAR 42.15. This requirement is generally referred to as past-performance evaluation.

The FAR requires that agencies evaluate contractor performance for each contract in excess of the Simplified Acquisition Threshold (SAT). 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 there should be no surprises on either side.
**STEP 8 - Close-Out Performance-Based Contracts**

Contract closeout is the final stage of the government contracting process. It can begin when the contract has been physically completed, and the process of closing out a contract is not complete until final payment is made to a contractor, disputes are settled and all administrative actions required by the Federal Acquisition Regulation and specific agency procedures accomplished. According to FAR 4.804-4, a contract is physically complete when:

- The contractor has completed the required deliveries and the government has inspected and accepted the supplies
- The contractor has performed all services and the government has accepted these services; and
- All option provisions, if any, have expired; or
- The government has given the contractor a notice of complete contract termination

When closing-out performance-based contracts, the FAR also states in 4.804-1(a)(1) that, "Files for contracts requiring settlement of indirect cost rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion."

Contract closeout is important to performance-based contracting because without this final step the government can't settle its books, meaning that unliquidated balances could potentially prevent an organization/agency from receiving a clean audit opinion. Additional key benefits to timely and correct contract closeouts are that they protect the government's interests from a legal standpoint and free up unused funding for various other agency priorities.

### The 12 Steps of Contract Closeout

There are 12 basic steps in closing out a contract. Each step must be correctly followed to ensure that contracts are deemed final. The steps of proper contract closeout are:

1. **Determining who is Responsible for Contract Closeout**
   
   Check the “Administered By” block on the latest modification, or the contract award form, to determine which office is responsible for administering and closing out the contract. If there is another office identified, ensure they will be closing out the file and that they return a contract completion statement when closeout is completed. If closeout has been delegated to another agency or organization, determine an appropriate POC.

2. **Building a Closeout File**
   
   Use customized agency closeout templates to create a closeout file in both electronic and hard copy contract files.

3. **Determining Physical Completion and Quick Closeout Procedures**
   
   It is essential to use a Physical Completion Checklist as well as to read the contract and all contract modifications thoroughly in order to determine if the contract is physically complete. Contact the contractor or government client if you need additional information or documentation in helping you make this determination. Enter the contract expiration date on the Contract Closeout Checklist.

4. **Payment Histories and Funding Resolution**
   
   Determine if there are any funds that must be obligated or deobligated. Identify the financial office that was responsible for the payments made under the particular contract and verify if there is any delta in funding that needs to be deobligated. Concurrently request that the financial payment office send a copy of the payment history.
for the contract closeout file. Compare a record of payments within the contract file with those from the financial office to ensure there are no discrepancies. If there are speak to the COR, contractor and/or CO to determine where an error took place.

5. Applicable Clauses and Provisions

Review the clauses and special provisions of the contract to determine if any terms and conditions relative to closeout are in the contract. The checklist, FAR Clauses and Special Provisions, may be useful to identify many of these clauses.

6. Determining Security Classification (If necessary)

Agency security classification documents should be included in section J of government contracts if the document contains classified material. Ensure, if applicable, the prime contractor clears all subcontracting agency security classification documents.

7. Letter to the Contractor

If excess funds are identified on the contract, identify these amounts by fiscal year and ask the contractor to confirm the amounts by year are accurate (include link). Make sure the letter to the addresses all closeout actions and clauses that pertain to the contract. Also, the letter to request any documents missing in the government’s copy of the contract file that the contractor is required to provide, such as any missing deliverables, documentation, invoice copies, etc. Included in the letter attach a Release of Claims and Assignment of Refunds, Rebates, Credits (include link).

A final invoice must not be paid until a signed release of claims and assignment of refunds, rebates and credits from the contractor have been received. Upon receipt of all applicable documents from the contractor, request the contractor submit a final invoice through the invoice payment system applicable to the contract, ensuring that the invoice is identified as “Final.”

8. Letter to the Technical POC

After receipt of the contractor’s package, prepare a letter to communicate with the Program Manager, Contracting Officer’s Representative (COR) or Authorized Government Representative (AGR) of the contract. The Technical POC is required to confirm all documents, including the final invoice and any other information the contractor provided are correct and ready for closeout.

9. Request for Audit (if applicable)


10. Negotiation and Invoice Payment (if applicable)

If the final audit report shows the government owes the contractor additional funds, negotiate the final costs with the Contractor and document any negotiations in a Price Negotiation Memorandum (PNM) (provide link). Work with your customer and the Finance Office to acquire the additional funds needed to pay the contractor. Request a revised final invoice from the Contractor and an updated/revised Release of Claims reflecting the negotiated final costs. Follow-up with the contractor or view the Agency specific payment monitoring website to determine when final payment was made. Place a memo of confirmation of payment with the invoice in the contract closeout file. If the final audit report reveals that the contractor owes the government for overpayments, contact the financial office responsible for the contract to determine the procedures for securing these funds from the contractor.


Upon settlement of final costs, finalize the contract closeout checklist and prepare Contract Completion Statement verifying that all contract administration office actions have been completed. Prepare a draft bilateral modification of the contract to finalize closeout. At a minimum, all modifications shall state the date of receipt of the release of
claims and assignment of refunds, rebates, credits. The modification should also identify obligations or de-obligations as appropriate. If funds still remain on an old contract, yet the value of excess funds cannot be reconciled between the CO, the financial office, and the contractor, the de-obligating modification shall state "DEOBLIGATE ANY REMAINING FUNDS" and the appropriate amount will be determined by the finance office. Send modification for management review, finalize, and send to contractor for signature. Execute final modification and distribute to all interested parties.

12. Legal Review (if applicable)

Ensure all closeout documents are properly filed. Use an agency specific legal review coordination sheet, if Legal review is required.

Time Standards for Closing Contract Files

Per FAR 4.804-1 - Closeout by the Office Administering the Contract, time standards for closing out contract files are as follows:

- Files for contracts using simplified acquisition procedures should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulations
- Files for firm-fixed-price contracts, other than those using simplified acquisition procedures, should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion
- Files for contracts requiring settlement of indirect cost rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion
- Files for all other contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion

A contract can NOT be closed-out in the following situations:

- The contract is in litigation or under appeal; or
- In the case of a termination, all termination actions have not been completed

Accelerated Closeout

Per FAR 42.708 - Quick Closeout Procedures a contract can bypass many steps outlined above for a quicker, more streamlined closeout. In order to utilize the procedures, a contract specialist and/or contracting officer must determine the follow criteria are met:

- The contract, task order, or delivery order is physically complete

The amount of unsettled direct costs and indirect costs to be allocated to the contract, task order, or delivery order is relatively insignificant. Cost amounts will be considered relatively insignificant when the total unsettled direct costs and indirect costs to be allocated to any one contract, task order, or delivery order does not exceed the lesser of—

1. $1,000,000; or
2. 10 percent of the total contract, task order, or delivery order amount;

The contracting officer performs a risk assessment and determines that the use of the quick-closeout procedure is appropriate. The risk assessment shall include—

1. Consideration of the contractor’s accounting, estimating, and purchasing systems;
2. Other concerns of the cognizant contract auditors; and
3. Any other pertinent information, such as, documented history of federal government approved indirect cost rate agreements, changes to contractor’s rate structure, volatility of rate fluctuations during affected
periods, mergers or acquisitions, special contract provisions limiting contractor’s recovery of otherwise allowable indirect costs under cost reimbursement or time-and-materials contracts; and

Agreement can be reached on a reasonable estimate of allocable dollars.

**Record Retention by Federal Agencies**

In accordance with FAR 4.805(c), closed contracts that meet the following criteria must be retained as described below:

<table>
<thead>
<tr>
<th>Record</th>
<th>Retention Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Contracts (and related records or documents, including successful and unsuccessful proposals, except see paragraph (c)(2) of this section regarding contractor payrolls submitted under construction contracts).</td>
<td>6 years after final payment.</td>
</tr>
<tr>
<td>(2) Contractor’s payrolls submitted under construction contracts in accordance with Department of Labor regulations (29 CFR 5.5(a)(3)), with related certifications, anti-kickback affidavits, and other related records.</td>
<td>3 years after contract completion unless contract performance is the subject of an enforcement action on that date (see paragraph (c)(8) of this section).</td>
</tr>
<tr>
<td>(3) Unsolicited proposals not accepted by a department or agency.</td>
<td>Retain in accordance with agency procedures.</td>
</tr>
<tr>
<td>(4) Files for canceled solicitations.</td>
<td>6 years after cancellation.</td>
</tr>
<tr>
<td>(5) Other copies of procurement file records used for administrative purposes.</td>
<td>When business use ceases.</td>
</tr>
<tr>
<td>(6) Documents pertaining generally to the contractor as described at FAR 4.801(c)(3).</td>
<td>Until superseded or obsolete.</td>
</tr>
<tr>
<td>(7) Data submitted to the Federal Procurement Data System (FPDS). Electronic data file maintained by fiscal year, containing unclassified records of all procurements exceeding the micro-purchase threshold, and information required under FAR 4.603.</td>
<td>6 years after submittal to FPDS.</td>
</tr>
</tbody>
</table>
(8) Investigations, cases pending or in litigation (including protests), or similar matters (including enforcement actions).

Until final clearance or settlement, or, if related to a document identified in paragraphs (c)(1) through (7) of this section, for the retention period specified for the related document, whichever is later.

**Conclusion**

The intent of this guide 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 collaborative, performance-oriented teamwork with a focus on program performance, improvement, and innovation, not simply contract compliance. Performance-based acquisition offers the potential to dramatically transform the nature of service delivery, and permit the federal government to tap the enormous creative energy and innovative nature of private industry.

For additional resources, including: templates, samples, examples, case studies and guides specific to performance based acquisition, please visit the web-based application at: [https://pba.app.cloud.gov/app/](https://pba.app.cloud.gov/app/)