

June 11, 2001

MEMORANDUM FOR ALL CONTRACTING OFFICERS, NEGOTIATORS, AND
EXECUTIVE OFFICERS

FROM: M/OP, Mark S. Ward, Director

SUBJECT: Reduction in the Use of Cost-Plus-Award-Fee Contracts

CONTRACT INFORMATION BULLETIN No. 01 - 12

Performance-based service contracting was introduced with the Office of Federal Procurement Policy (OFPP) Policy Letter 91-2, "Service Contracting", followed by the Office of Management and Budget (OMB) letter "Performance-Based Service Contracting" in May 1994. In October 1997, performance-based service contracting was incorporated into the Federal Acquisition Regulation (FAR) Part 37, "Service Contracting".

When USAID started to implement Performance Based Contracting (PBC), we encouraged the use of cost-plus-award-fee (CPAF) contracts. Soon many contract professionals began to equate PBC with the use of CPAF contracts. PBC is not associated with any one type of contract. Rather, PBC is reflected in the approach to the Statement of Work - stating "what" our desired results are instead of describing "how" we would like something done.

In our recent efforts to reduce the work load and simplify procurement, one suggestion from the Procurement Executive was to discourage use of CPAF contracts. This was based upon a number of concerns brought to the attention of the Acquisition and Assistance Ombudsman. CPAF contracts have not proven to be the best method of contracting for USAID for a number of reasons including: (1) our contractors, whose base fees are usually very low, are tempted to focus foremost on achieving items which will win award fees for them - to the detriment of other items in the contract which may also be important but are not tied to award fees; and (2) we are often not determining the award fees in compliance with the terms of the contracts because we do not

have sufficient staff to develop, award, and administer CPAF contracts.

In light of these concerns, and in the interest of simplifying USAID procurement, M/OP has decided to discourage the use of CPAF contracts. Contracting Officers are reminded that FAR 16.405-2(b) states that cost-plus-award-fee contracts are suitable for use only when any additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits. We expect this will rarely be the case. Any future solicitations for CPAF contracts will require the Contracting Officer to justify and document the file that the additional administrative effort is justified by the expected benefits of the particular CPAF contract.

Questions regarding this CIB may be directed to Ombudsman, Mary Reynolds, telephone number (202) 712-5726 or M/OP/P, Fran Maki, telephone number (202) 712-4978.

