COST PLUS AWARD FEE CONTRACT ADMINISTRATION DESKGUIDE

1. Introduction. This Guide does not cover all aspects of administering a cost plus award fee (CPAF) contract. As all of the Directorates of Contracting are experienced in administering fixed price contracts, this Guide concentrates only on the particular areas that are unique to a CPAF contract and differ from fixed price contracts.

2. Background. A cost-reimbursement type of contract provides for payment of allowable incurred costs to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer (KO). A CPAF contract is a cost-reimbursement contract that provides an estimated cost plus a fee consisting of a base amount (which may be zero) fixed at inception of the contract and an award amount. The award amount is a pool of dollars available to the contractor to earn through excellent contract performance. The award fee determination is made unilaterally by the Government based upon periodic subjective evaluations of contractor performance. One important aspect to remember, the award fee amount must be sufficient to provide motivation to the contractor for excellence in contract performance.

3. Post Award Conference. Post award orientation, either by conference, letter or some other form of communication, is the beginning of the actual process of good contract administration. This communication is essential to ensuring the Government and the contractor achieve a clear and mutual understanding of the contract requirements, helps the contractor understand the roles and responsibilities of the Government officials who will administer the contract, and reduces future problems. Items discussed during the post award conference should include the authority of Government personnel who will administer the contract, quality control and testing, the specific contract deliverable requirements, special contract provisions, the Government's procedures for monitoring and measuring performance, and contractor billing/payment procedures. It is helpful to have a pre-meeting with applicable program and contracting officials prior to the post award orientation conference so that there is a clear understanding of their specific responsibilities and restrictions in administering the contract.

4. Quality Assurance. Quality assurance in cost type contracts contains the same basic principles and procedures as with fixed price type contracts (except for the added responsibility of tracking costs, see paragraph 5 below) – ensure that the performance of work called for in the contract is accomplished (minimum requirements), ensure quality work, and ensure timeliness of performance. COR’s provide support to the KO and ensure that the contractor performs according to contract terms and conditions by monitoring contractor's performance through review of monthly reports, onsite visits, and surveillance reviews. For the most part the rights and obligations of the parties are similar, but there is one key difference. Under a CPAF contract the contractor is entitled to reimbursement of the costs of performance. Thus, if an item is found upon inspection to be defective, the Government may require the contractor to correct or replace it, but must pay the contractor to do so (the contractor however would not be entitled to an increase in base fee under these circumstances). If re-performance is not possible, the Government may elect to reduce the contractor’s base fee.

5. Tracking Costs.

a. Monitoring costs is critical in administering CPAF contracts. The key clause governing this area is the “Limitation of Cost” clause. This clause expressly limits the Government’s obligation to the amount stated in the contract as the total estimated cost of the contract work. Because completion of the contract work may turn out to cost more than the estimated cost, the limitation of cost clause also provides, in effect, that the contractor will have no obligation to continue the work when the performance reaches the total estimated cost. Whether or not the contract work is finished when this point is reached, the contractor is entitled to stop work unless the contract is modified to increase the total estimated costs. It must be noted, however, that the "Limitation of Cost" clause requires the contractor to notify the KO if within the next 60 days they will exceed 75% of the total estimated costs. As part of their notification, the contractor must also provide a revised estimate of the total cost of the contract.

b. Maintaining monthly reports or spreadsheets on costs incurred against the contract estimated amount are required to help the COR monitor the contractor's expenditures under the contract. There are a two ways to assist the COR in accomplishing this task. The COR should review the interim invoices/vouchers submitted by the contractor for obtaining reimbursement. From the invoices/vouchers the COR can maintain a running total of costs incurred and billed. The COR also needs to review the contractor's monthly interim financial report (Contract Data Requirements Listing (CDRL) entitled, "Cost and Performance Report") to ensure it is consistent with the applicable interim invoice/voucher (the monthly CDRL and interim invoices/vouchers should be reconciled). Both of these COR reviews are independent of the routine processing of interim invoices/vouchers for payment (see paragraph 6 below). The importance of keeping track of and keeping the KO advised of the contractor's performance cost in relation to the total estimated cost cannot be overstated.

c. If it appears to the COR that the contractor may be spending more than necessary on the work, the KO should call for additional explanation or documentation from the contractor. If the additional information does not satisfy the COR the matter needs to be discussed with the contractor. This leads to one important aspect of cost contracts, not only does the Government have to track costs but in certain instances must guide the contractor's activities so as to conserve funds and not exceed the contract's dollar ceiling.

d. In an overrun situation, where the contractor's costs exceed the total estimated costs, the obligation to proceed is suspended, it is important that the KO and other Government personnel refrain from requesting or encouraging the contractor to continue work – such action may legally obligate the Government to reimburse the contractor for continuing the work.

6. Interim/Final Billing and Payments.

a. The processing of interim and final invoices/vouchers has to be clearly spelled out in the contract and there has to be a mutual understanding of the payment process and the applicable contract provisions dealing with payment. It is highly recommended that the first interim invoice/voucher be reviewed in detail with the contractor as to format and level of detail. This makes the second and subsequent invoices easier to review and process.

b. Interim/Final invoices/vouchers in cost reimbursement contracts are submitted directly to the cognizant Defense Contract Audit Agency (DCAA) office for review and provisional approval (with a courtesy copy sent to the KO). Invoices/vouchers shall be submitted on an SF1034 (and SF 1035 continuation page) and contain the information required by DCAA Pamphlet 7641.90 (see chapter 5). A copy of DCAA Pamphlet 7641.90 can be found at http://www.dcaa.mil under DCAA Publications. DCAA forwards the invoice/voucher to DFAS for payment. DCAA does have a program in-place that allows for contractors to submit invoices/vouchers for interim billings (only) directly to DFAS for payment. If the contractor has met certain criteria, an acceptable accounting & billing system and timely submittal of proposals (in accordance with FAR Clause 52.216-7), the contractor can request and receive permission from DCAA to "direct bill" to DFAS (see Chapter 5 of DCAA Pamphlet 7641.90 for specific details). DCAA permits the contractor to direct bill by forwarding a letter to DFAS and the contractor informing them that they can direct bill. If an offeror is approved for direct billing, they still have to forward courtesy copies of interim invoice/vouchers to DCAA and the KO.

c. Independent of the invoice/voucher billing and payment process identified in subparagraph b. above, the KO needs to review the interim invoices/vouchers for the following items: mathematical accuracy of the interim invoice/voucher (to avoid any under/overpayment to the contractor); compare the contractor's billing rates against the agreed upon/contract rates to ensure that indirect costs are being billed properly; and request a review of the invoice/voucher from the COR. The COR’s review should include a comparison and reconciliation with the contractor’s monthly CDRL submittal entitled “Cost and Performance Report” (see subparagraph 5.b. above).

(1) It is necessary at the beginning of each contract period that the KO work with the contractor and the appropriate Government Official (either the Contract Administration Office (CAO) or DCAA) to determine the proposed interim billing rates for indirect rates for the upcoming year (performance period). The key here is to ensure that the agreed upon billing rates come as close as possible to predicting the final indirect rates to avoid any major under or over payments. If throughout the performance period it appears the proposed billing rates are not going to be very realistic of the final indirect rates then it is necessary to adjust the billing rates accordingly to bring them more in line with the predicted final indirect rates. In accordance with FAR Clause 52.216-7, the Contractor submits a final indirect cost rate proposal to the appropriate Government Official within the 6-month period following the expiration of each of its fiscal years. If the contractor has a Corporate CAO or a resident CAO then they are responsible for negotiating the final indirect rates. If the contractor has neither of these, then the cognizant DCAA Office is responsible for determining the final indirect rates. Either way, the KO will be notified by the CAO or DCAA Office of the final indirect rates. Then, after the final indirect cost rates have been established the contractor shall submit a completion invoice/voucher to reflect the settled amounts and rates.

(2) The KO relies on the COR to review and determine if contractor performance is commensurate with the amount shown on the interim invoice/voucher. The COR will review the monthly "Cost and Performance Report" to assess that direct labor costs and material/equipment costs are allocable, allowable, and reasonable and ensure that costs are not being incurred prematurely and that they relate to progress under the contract. The COR's review will ensure that the nature, type, and quantity of effort or materials being expended are in general accord with the progress of work under the contract. In addition, at any time or times before final payment, the KO may have the Contractor's invoices or vouchers and statements of cost audited by DCAA

(3) Overall the KO relies primarily on the COR (and DCAA) to review interim contractor billings to identify waste or unallowable costs. The KO is entitled to ask the contractor for information needed in determining whether the charges billed are reasonable and allocable (two basic tests that billings must pass to be reimbursable). The KO has the right to disallow costs if they are deemed not reasonable or allocable to the contract. The following criteria should be used in making this determination:

Reasonableness - what one would expect an ordinarily competent and prudent person to charge in conducting a business in competitive environment. Is the cost of a type that is generally recognized as both ordinary and necessary in conducting the contractor's work?

Allocability – a cost is allocable if it is assignable or chargeable to a particular cost objective in accordance with the relative benefits received or other equitable relationship. The KO must determine allocability by asking if the cost is incurred specifically for the contract and benefits the contract.

d. It is imperative that DFAS forwards a copy of each paid voucher to the KO for inclusion in the official contract file. Maintaining a voucher payment log, either manually or computerized, in the contract file helps to track the contractor's claimed costs and fee (if applicable) against contract costs and fee. Maintaining a copy of each paid voucher in the official contract file helps to ensure proper accountability.

7. System Reviews and Audits. The KO needs to ensure through the appropriate Government Official (either the CAO or DCAA) that the contractor has an acceptable Estimating system, Billing system, and Material Management & Accounting system. Acceptable system reviews let the KO know that the contractor's accounting/billing system and internal control policies and procedures are adequate for collecting and supporting costs claimed on invoices/vouchers. If the audit findings reflect problems with any of these systems, the KO needs to ensure (either through the CAO or DCAA) that the Contractor has a corrective action plan in-place to resolve any noted deficiencies.

8. Property Review. The KO must ensure that the contractor’s property system meets the requirements of the contract and is sufficient in protecting Government property. At the beginning of the base year the contractor shall submit in writing to the KO his proposed system for controlling, protecting, preserving, and maintaining Government property. The KO shall review and approve the contractor’s system. If a property administrator is not available, the KO needs to rely on the COR to assist in the review and approval of the contractor’s system.

8. Award Fee. See attached Award Fee Guide.