

Procurement & Property Division Policy Memorandum

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|---|-----------------------------------|------------------------------|--------------------------|
| Subject: Performance Based Service Contracting | | | Number: 37-02 |
| Distribution: ARS: PAO's PPD FD | Date: December 15, 2000 | This Replaces: N/A | |

Purpose

This memorandum defines, clarifies, and provides general guidelines for processing Performance Based Service Contracts (PBSC's) for service requirements over \$100,000.

This policy guidance will assist REE in meeting its PBSC fiscal year goals for the next 5 years which are provided in the table below. For example, in fiscal year 2001, the agency must process 10 percent of its service requirements as PBSC's. These PBSC goals are consistent with the Government-wide goals for PBSC as set by the Procurement Executive Council, Office of Federal Procurement Policy, Offices of Management and Budget.

| Fiscal Year | PBSC Goal (%) |
|--------------------|----------------------|
| 2001 | 10 |
| 2002 | 20 |
| 2003 | 30 |
| 2004 | 40 |
| 2005 | 50 |

The following are a list of services that provide excellent opportunities for the use of PBSC:

- C Operation and Maintenance of Facilities
- C Administrative and Clerical Support, e.g., data entry, court reporting, typing, editing, and distribution

- C Transportation, Travel, and Relocation Services
 - C Environmental Remediation
 - C Software Development
 - C Management Support
 - C Studies and Analyses
 - C Surveys
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Definition

PBSC involves strategies, methods, and techniques for acquiring services that communicate the desired end result rather than dictating detailed performance processes. It is structured around defining a service requirement in terms of performance objectives and is designed to provide contractors the discretion to determine how to meet those performance objectives. The Statement of Work (SOW) describes what results are required rather than how the work is to be accomplished. The SOW also tells the contractor how well the Government wants the services performed. One of the greatest benefits of a PBSC contract is that it motivates contractor performance by providing both positive and negative incentives for meeting or failing to meet performance standards. The vendor assumes both the risks and rewards. Performance based acquisitions include the following elements:

- C Performance requirements that define the work in measurable, mission-related terms;
 - C performance standards, also referred to as thresholds, (i.e., quality, quantity, and timeliness) that are measurable and tied to the performance requirement;
 - C a Government quality assurance plan, that describes how the contractor's performance will be measured against the performance standards;
 - C procedures for applying contract price or fee decrements when performance does not meet the stated standards/thresholds; and
 - C when appropriate, performance incentives to further encourage innovation and exceptional results.
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Policy Guidance

All REE agency Contracting Officers (CO's), Procurement Assistance Officers (PAO's), Contract Specialists, and Purchasing Agents shall

ensure that the following requirements and procedures are followed for all service contracts and new service requirements valued at \$100,000 or more. This shall include all services purchased under Required Sources of Supplies and Services, FAR Part 8, Acquisition of Commercial Items, FAR Part 12, Simplified Acquisitions Procedures, FAR Part 13, and Contracting by Negotiation, FAR Part 15.

**Action Required By
Contracting Activities**

All PAO's and the Chief, Procurement and Property Branch (PPB), Procurement and Property Division (PPD); Chief, Contracts Branch (CB), PPD; and the Director, Facilities Division (FD) shall prepare a list of all active service and follow-on service contracts valued over \$100,000 and submit to the Head of the Contracting Activity Designee (HCAD) according to the schedule provided below:

| Fiscal Year | Due Date |
|--------------------|-----------------|
| * 2001 | January 19th |
| 2002 | October 30th |
| 2003 | October 30th |
| 2004 | October 30th |
| 2005 | October 30th |

- * The January 19 list shall include active contracts already awarded during the fiscal year and planned actions for the remainder of the fiscal year.

The list shall provide the following information for each requirement:

- # Contract number
- # Description
- # Award Date
- # Expiration Date
- # Dollar Value
- # Contract Type
- # Duration
- # Methodology (PBSC, yes or no)

All follow-on service contracts and new service requirements valued at \$100,000 or more shall be considered PBSC eligible. PBSC eligible means the service requirement shall be processed as a PBSC contract unless the procuring office obtains a waiver from the HCAD.

- P All PAO's and the Chief, PPB, PPD; Chief, CB, PPD; and the Director, FD shall be required to process all PBSC eligible follow-on service contracts and new service requirements as PBSC contracts. Requirements processed under this policy must comply with FAR Part 37.6, Performance- Based Contracting.
- P To ensure PBSC requirements are processed in a timely manner, all PAO's and the Chief, PPB, PPD; Chief, CB, PPD; and the Director, FD shall be responsible for allocating sufficient lead-time to develop new SOW (performance work statements), performance standards and quality assurance plans.
- P When a PAO, Chief, PPB, PPD; Chief, CB, PPD or Director, FD determines that a PBSC eligible requirement should not be processed as a PBSC contract, the procuring official shall prepare a written request for a waiver from the HCAD for this requirement. The PPD HCAD is the only procurement official authorized to waive the requirement for PBSC eligible service requirements. Waiver requests shall be processed within 15 calendar days of receipt by the HCAD.
- # The waiver shall state the results of any market research undertaken to identify similar Federal Government PBSC contracts for the subject acquisition and provide an impelling and sufficiently detailed reason why PBSC should not be pursued in this instance (Enclosure 1). For example, a PBSC should not be pursued if measurable performance standards (i.e., in terms of quality, timeliness, quantity, etc.) and a quality assurance/surveillance plan cannot be developed. Another example would be when performance incentives are not likely to improve performance under the contract. The waiver request shall also include a description of the service, anticipated dollar value, contract duration, and contract type. In order to allow an independent evaluation and determination by the HCAD of the requirements applicability for a PBSC acquisition approach, the waiver shall provide sufficient rationale.

Also enclosed, is a sample PBSC SOW (Enclosure 2), a Performance Requirements Summary Incentive Plan (Enclosure 3), and a listing of Internet Resources and Samples (Enclosure 4).

PPD Point of Contact

Policy Branch, 301-504-1725.

Approved:

Richard G. Irwin, Director
Procurement and Property Division

4 Enclosures

(Determination and Findings Format)

SUBJECT: Request to Waive Performance Based
Service Contract Requirement

TO: Contract File

THROUGH: Richard G. Irwin
Head of the Contracting Activity Designee
Procurement and Property Division

FROM: John M. Smith
Contracting Officer
Contracts Branch, PPD

(Executive Summary)

* Limit to 1 paragraph

* Brief statement of the acquisition issues supporting the request to waive the Performance Based Service Contract (PBSC) policy requirements.

Background:

* Provide background information about the acquisition which shall include a description of the services, pertinent dates/issues, contract type, dollar value, contract duration, anticipated solicitation and award dates, and a detailed rationale for waiving the PBSC requirement.

Concurrence:

* A brief statement indicating why it is in the best interest of the government to waive the requirements of this PBSC policy.

Determination:

This determination is hereby approved by the Head of the Contracting Activity Designee to support the findings that it is in the best interest of the Government to waive the PBSC requirement (Policy Memorandum No. 37-02) for the acquisition described herein.

RICHARD G. IRWIN
Head of the Contracting Activity Designee
Procurement and Property Division

STATEMENT OF WORK

for

An Evaluation of Customer Service and Support

in

Financial Services and Management

December 15, 2000

Statement of Work

Scope of Support. This Statement of Work (SOW) is for consultant and advisory services required to evaluate the administrative and financial management services and support provided to the Agriculture, Business, and Education (ABE) program agencies and the Office of the Under Secretary, United States Department of Agriculture (USDA) including identifying opportunities for improving business processes and objectively analyzing the level and costs of services provided to assure they are reasonable and fair for each agency serviced.

Background. By Congressional and Departmental directive, a single administrative support unit was mandated to service agencies of each of the six (6) newly defined mission areas of USDA in 1993. As part of the ABE mission area, approved by the Secretary January 11, 1999, the Financial Services and Management (FSM) organization was established by consolidating previously distinct administrative units.

It has been approximately two (2) years since FSM was established, and while much has been accomplished in terms of customer satisfaction, it is time to evaluate levels of support the agencies receive, the costs of those services, and FSM's prioritization of responses to customer service requests. Through an objective third party review of FSM's service delivery, operational infrastructure, and budget development process, it may be possible to identify opportunities for improvements in its operational effectiveness and efficiency.

This review is to be focused on FSM offices located in Beltsville, Maryland and Washington, D.C., and cover services provided to the Headquarters offices of the four ABE program agencies also located in Beltsville, Maryland and Washington, D.C. Service to field offices will be addressed only to the degree such services, and the policies and procedures established for those services influence Headquarters operations.

The Contractor shall utilize existing information to the greatest extent possible in the conduct of this review and evaluation. Customer satisfaction information may be obtained through agency selected customer interviews and review of FSM documented customer satisfaction surveys conducted over the past 1-2 years.

Contractor Requirements. The Contractor shall be responsible for the conduct and completion of a review and assessment report on current FSM customer service delivery and support to the four program agencies of the ABE mission area covering the following areas and questions:

- 1. Budgeting and Cost Accountability.** This is to address the following questions:

- Does the budgeting and cost distribution process used by FSM provide a full accounting of costs for services provided to each of its client agencies?
- Are salary costs, including salary lapse rebates, properly distributed by agency?
- Are all non-salary costs (FSM central charges, information technology, policy development, and agency specific travel) identified by FSM necessary to carrying out FSM's role and responsibilities? Are there non-salary costs that can be reduced or eliminated without compromising required and requested services?
- Are FSM fiscal year expenditures properly documented and reported to client agencies at the end of the year?

2. Effective Business Practices and Functional Responsibilities. This is to address the following questions:

- How well does FSM understand the people, needs, and organization of the agencies served?
- Are there things FSM should stop doing that the agencies might do more effectively and efficiently for themselves? Have the agencies identified and communicated these areas to FSM?
- How effective are communications between FSM service providers and agency customers at all levels?
- Does FSM properly carry out key USDA administrative and financial management laws, rules, and regulations; and effectively and equitably represents the interests of the ABE agencies in dealings with key offices of Departmental Administration (including the Office of Assistant Secretary for Administration; the Office of the Chief Financial Officer; the Office of the Chief Information Officer; Office of the Inspector General; Office of Human Resource Management; Office of Procurement, Property, and
- Emergency Preparedness; Office of Civil Rights; and the Office of Small and Disadvantaged Business Utilization?)
- Recommendations for Improvement - For these recommendations, does FSM have the infrastructure and resources necessary to implement them?

3. Organizational Alignment. This is to address the following questions:

- What is the Optimal Organization for FSM, taking into consideration organizational parameters for mission area administrative support units set by Congress and the Department of Agriculture at the time of the 1993 USDA Reorganization?
- Is the assignment of FSM staff to Policy Development vs Operations appropriate?

- C Does FSM have sufficient skills to carry out its mission effectively and efficiently?
- C What is the general “organizational health” of FSM in terms of employee morale, turnover, and workload assignments? How does this affect service delivery?

4. Contingency Planning. This is to address the following questions:

- C What recommended steps can FSM take, in addition to the Budget Contingency Planning process outlined in Mr. Horner’s October 6, 1999, memorandum to the Agency Administrators, to respond to a significant reduction in FSM funds necessitated by reductions in annual appropriations for any one program agency?
- C Recommendations must take into consideration current USDA human resource management policy, agency servicing expectations, and impacts on existing economies of scale in FSM servicing (i.e., individual FSM employees servicing multiple agencies). What impacts do these constraints have on FSM’s ability to adjust costs quickly and effectively?

5. Customer Service and Communications: This is to address the following questions:

- C Is FSM providing the quality services requested by its customers?
- C Are current communications processes effective in assuring that FSM service providers understand the customer’s service needs, priorities, and expectations; and in return do agency customers understand the level of service FSM will provide and the time frames in which service requests will be acted on?
- C Are current FSM Division Customer Service Plans reasonable and effective in meeting customer service requirements and expectations?
- C What level of customer sampling is necessary to adequately assess general customer satisfaction beyond what is currently done by FSM?
- C Does FSM assign service priorities fairly and in a balanced manner across all four program agencies?
- C What additional actions should FSM consider to reassure its customers they are receiving a fair return on their investment in FSM services?

6. Government Responsibilities. The Government will provide the following:

- Organizational Charts (FSM and ABE)
- FSM Functional Statements
- FSM Strategic Plan
- FSM Divisional Customer Service Plans

- FSM Operating Budget and Accounting Data
- Agency Directories
- USDA Departmental Administration Directory
- Access to ABE Policy and Procedural Issuances
- FSM Customer Satisfaction Survey Results

7. Reporting Requirements and Deliverables. During the conduct and completion of the Contractor’s review, analysis, report of findings, and recommendations:

- C Prior to startup of on-site review, contractor shall meet with the four Agency Administrators and Deputy Administrator, FSM, to assure contractor understanding of issues and expectations within the scope of this SOW. Contractor shall brief Agency Administrators on general approach to meeting the terms of this SOW.
- C The Contractor shall complete all on-site review work and submit a final report of findings and recommendations to the Government within 90 days of contract award.
- C The Government will be available to answer Contractor questions regarding this requirement upon request during the contract period.
- C The Contractor shall keep the Government apprised of the review’s progress. At a minimum the Contractor will meet with the Government and provide two interim project status reports at 30 day intervals.
- C the Government shall review and approve a “draft” of the Contractor’s report of findings and recommendations 15 workdays prior to Contractor issuance of a final report.
- C Contractor shall hold a closing conference to brief the four Agency Administrators and Deputy Administrator, FSM, on findings and recommendations.
- C Contractor shall provide an original and 10 copies of a final report of findings and recommendations.

Performance Requirements Summary

| Requirement | Measure (Quality) | Observation Method | Standard | +/- Incentives |
|--|--|--|--|--|
| <p>Methodology, analysis, findings, recommendations, and final report.</p> | <p>Concurrence of cognizant Agency Administrators.</p> | <p>Qualitative review and assessment by Agency Administrators.</p> | <p>High Quality – Agency Administrators judged the report as providing <i>substantial</i> industry, government standards and/or benchmarks for comparison purposes and to validate study analyses; the chosen methodology for the study was <i>excellent</i> and conducted in a logical and sequential manner; final report strengths, weaknesses and recommendations were <i>well written</i> and <i>easy to understand</i>; final report made <i>proficient</i> use of color, charts, tables, graphs, graphics, etc. to facilitate the conveyance of information; final report was judged as providing the Government a <i>90 to 100% confidence</i> in the study methodology, findings, analyses and recommendations.</p> <p>Average Quality – Agency Administrators judged the report as providing <i>sufficient</i> industry, government standards and/or benchmarks for comparison purposes and to validate study analyses; the chosen methodology for the study was <i>satisfactory</i> and conducted in a logical and sequential manner; final report strengths, weaknesses and recommendations were <i>adequately written</i> and <i>understandable</i>; final report made <i>adequate</i> use of color, charts, tables, graphs, graphics, etc. to facilitate the conveyance of information; final report was judged as providing the Government a <i>80 to 89% confidence</i> in the study methodology, findings, analyses and recommendations.</p> <p>Low Quality – Agency Administrators judged the report as providing <i>insufficient</i> industry, government standards and/or benchmarks for comparison purposes and to validate study analyses; the chosen methodology for the study was <i>inadequate</i> and was not conducted in a logical and sequential manner; final report strengths, weaknesses and recommendations were <i>inadequately written</i> and <i>at times difficult to understand</i>; final report made <i>inadequate</i> use of color, charts, tables, graphs, graphics, etc. to facilitate the conveyance of information; final report was judged as providing the Government <i>below a 79% confidence</i> in the study methodology, findings, analyses and recommendations.</p> | <p>(+) .015</p> <p>.00</p> <p>(-) .015</p> |

Performance Requirements Summary

| Requirement | Measure (Quality) | Observation Method | Standard | +/- Incentives |
|---|--|--|--|---|
| <p>Identify strengths, weaknesses and opportunities/alternatives for improving business processes and determines if cost of services assessed to each agency are equitable.</p> | <p>Concurrence of cognizant Agency Administrators.</p> | <p>Qualitative review and assessment by Agency Administrators.</p> | <p>90 to 100 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>80 to 89 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>75 to 79 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>Less than 75 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> | <p>(+) .005</p> <p>(+) .0025</p> <p>.00</p> <p>(-) .005</p> |
| <p>Identify strengths, weaknesses, and opportunities/alternatives for improvement in staff skill levels, practices and existing resources.</p> | <p>Concurrence of cognizant Agency Administrators.</p> | <p>Qualitative review and assessment by Agency Administrators.</p> | <p>90 to 100 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>80 to 89 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>75 to 79 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>Less than 75 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> | <p>(+) .005</p> <p>(-) .0025</p> <p>.00</p> <p>(-) .005</p> |

Performance Requirements Summary

| Requirement | Measure (Quality) | Observation Method | Standard | +/- Incentives |
|---|---|---|--|---|
| Identify strengths, weaknesses, and opportunities/alternatives for improvement in budget distribution process (budget charge-back process). | Concurrence of cognizant Agency Administrators. | Qualitative review and assessment by Agency Administrators. | <p>90 to 100 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>80 to 89 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>75 to 79 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>Less than 75 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> | <p>(+) .005</p> <p>(+) .0025</p> <p>.00</p> <p>(-) .005</p> |
| Identify strengths, weaknesses, and opportunities/alternatives for improvement in customer service plans. | Concurrence of cognizant Agency Administrators. | Qualitative review and assessment by Agency Administrators. | <p>90 to 100 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>80 to 89 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>75 to 79 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> <p>Less than 75 % of recommendations are feasible and likely to generate <i>substantial efficiencies</i> in terms of managerial, operational or cost savings when implemented.</p> | <p>(+) .005</p> <p>(+) .0025</p> <p>.00</p> <p>(-) .005</p> |

Maximum Incentive : 3.5 % of contract price
Maximum Negative Incentive: 3.5% of contract price
Definitions:

Requirement: the end or ultimate outcome toward which a program effort or activity is directed.

Observation Method: how the final report will be measured for quality.

Measure: a quantitative representation of an Indicator or a qualitative judgment concerning an Indicator

Standard: a reference point, preferably based upon a clear quantitative Measure, with respect to achievement of a Requirement or Objective. In a performance-based statement, a Standard may be further defined as the minimum level of performance below which achievement of a Requirement or Objective may be compromised.

Internet Resources and Samples

To provide additional guidance, resources, sample PBSC SOW's, performance standards, and quality assurance plans, the following web-sites are provided:

Office of Federal Procurement Policy - A Guide to Best Practices for Performance Based Service Contracting

<http://www.arnet.gov/Library/OFPP/BestPractices/PPBSC/BestPPBSC.html>

NASA - Performance-Based Contractings

<http://procure.msfc.nasa.gov/hq/library/perfba.htm>

Department of Army - Performance Based Service Acquisition

<http://www.amc.army.mil/amc/rda/rda-ac/pbsc/pbsc-source.htm>

Department of Army – Performance Based Contracting, Proposal Evaluation

<http://www.itpolicy.gsa.gov/mkm/gsaep/ideas/15army.htm>

Internal Revenue Service – Performance Based Contracting

<http://www.itpolicy.gsa.gov/mkm/gsaep/ideas/irs7.htm>

Office of Federal Procurement Policy – Automated Data Processing Maintenance Services

<http://www.arnet.gov/Library/OFPP/PolicyDocs/pbsccprm.html>

Office of Federal Procurement Policy – Software Development Contracts

<http://www.arnet.gov/Library/OFPP/PolicyDocs/pbscswdc.html>

Office of Federal Procurement Policy – Performance Based Concepts for Telephone Call Center Contracting

<http://www.arnet.gov/Library/OFPP/PolicyDocs/pbsctcco.html>

Office of Federal Procurement Policy – Performance Based Contracting for Language Training Services

<http://www.arnet.gov/Library/OFPP/PolicyDocs/pbscltsv.html>