

# DFARS Procedures, Guidance, and Information

## PGI 216—Types of Contracts

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*(Added July 11, 2006)*

### PGI 216.4—INCENTIVE CONTRACTS

#### PGI 216.402 Application of predetermined, formula-type incentives.

##### PGI 216.402-2 Technical performance incentives.

Contractor performance incentives should relate to specific performance areas of milestones, such as delivery or test schedules, quality controls, maintenance requirements, and reliability standards.

##### PGI 216.403 Fixed-price incentive contracts.

##### PGI 216.403-2 Fixed-price incentive (successive targets) contracts.

The formula specified in FAR 16.403-2(a)(1)(iii) does not apply for the life of the contract. It is used to fix the firm target profit for the contract. To provide an incentive consistent with the circumstances, the formula should reflect the relative risk involved in establishing an incentive arrangement where cost and pricing information were not sufficient to permit the negotiation of firm targets at the outset.

##### PGI 216.405 Cost-reimbursement incentive contracts.

##### PGI 216.405-1 Cost-plus-incentive-fee contracts.

Give appropriate weight to basic acquisition objectives in negotiating the range of fee and the fee adjustment formula. For example—

(1) In an initial product development contract, it may be appropriate to provide for relatively small adjustments in fee tied to the cost incentive feature, but provide for significant adjustments if the contractor meets or surpasses performance targets; and

(2) In subsequent development and test contracts, it may be appropriate to negotiate an incentive formula tied primarily to the contractor's success in controlling costs.

##### PGI 216.405-2 Cost-plus-award-fee contracts.

(1) Normally, award fee is not earned when the fee-determining official has determined that contractor performance has been submarginal or unsatisfactory.

(2) The basis for all award fee determinations shall be documented in the contract file.

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(3) The cost-plus-award-fee contract is also suitable for level of effort contracts where mission feasibility is established but measurement of achievement must be by subjective evaluation rather than objective measurement. See Table 16-1, Performance Evaluation Criteria, for sample performance evaluation criteria and Table 16-2, Contractor Performance Evaluation Report, for a sample evaluation report.

(4) The contracting activity may—

(i) Establish a board to—

(A) Evaluate the contractor's performance; and

(B) Determine the amount of the award or recommend an amount to the contracting officer; and

(ii) Afford the contractor an opportunity to present information on its own behalf.

#### **PGI 216.470 Other applications of award fees.**

The “award amount” portion of the fee may be used in other types of contracts under the following conditions:

(1) The Government wishes to motivate and reward a contractor for—

(i) Purchase of capital assets (including machine tools) manufactured in the United States, on major defense acquisition programs; or

(ii) Management performance in areas which cannot be measured objectively and where normal incentive provisions cannot be used. For example, logistics support, quality, timeliness, ingenuity, and cost effectiveness are areas under the control of management which may be susceptible only to subjective measurement and evaluation.

(2) The “base fee” (fixed amount portion) is not used.

(3) The chief of the contracting office approves the use of the “award amount.”

(4) An award review board and procedures are established for conduct of the evaluation.

(5) The administrative costs of evaluation do not exceed the expected benefits.

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<b>TABLE 16-1, PERFORMANCE EVALUATION CRITERIA</b>						
		<b>Submarginal</b>	<b>Marginal</b>	<b>Good</b>	<b>Very Good</b>	<b>Excellent</b>
<b>A</b> Time of Delivery.	(A-1) Adherence to plan schedule.	Consistently late on 20% plans	Late on 10% plans w/o prior agreement	Occasional plan late w/o justification.	Meets plan schedule.	Delivers all plans on schedule & meets prod. Change requirements on schedule
	(A-2) Action on Anticipated delays.	Does not expose changes or resolve them as soon as recognized.	Exposes changes but is dilatory in resolution on plans.	Anticipates changes, advise Shipyard but misses completion of design plans 10%.	Keeps Yard posted on delays, resolves independently on plans.	Anticipates in good time, advises Shipyard, resolves independently and meets production requirements.
	(A-3) Plan Maintenance.	Does not complete interrelated systems studies concurrently.	System studies completed but constr. Plan changes delayed.	Major work plans coordinated in time to meet production schedules.	Design changes from studies and interrelated plant issued in time to meet product schedules.	Design changes, studies resolved and test data issued ahead of production requirements.
<b>B</b> Quality of Work.	(B-1) Work Appearance.	25% dwgs. Not compatible with Shipyard repro. processes and use.	20% not compatible with Shipyard repro. processes and use.	10% not compatible with Shipyard repro. processes and use.	0% dwgs prepared by Des. Agent not compatible with Shipyard repro. processes and use.	0% dwgs. Presented incl. Des. Agent, vendors, subcontr. Not compatible with Shipyard repro processes and use.
	(B-2) Thoroughness and Accuracy of Work.	Is brief on plans tending to leave questionable situations for Shipyard to resolve.	Has followed guidance, type and standard dwgs.	Has followed guidance, type and standard dwgs. Questioning and resolving doubtful areas.	Work complete with notes and thorough explanations for anticipated questionable areas.	Work of highest caliber incorporating all pertinent data required including related activities.
	(B-3) Engineering Competence.	Tendency to follow past practice with no variation to meet reqmts. job in hand.	Adequate engrg. To use & adapt existing designs to suit job on hand for routine work.	Engineered to satisfy specs., guidance plans and material provided.	Displays excellent knowledge of constr. Reqmts. considering systems aspect, cost, shop capabilities and procurement problems.	Exceptional knowledge of Naval shipwork & adaptability to work process incorporating knowledge of future planning in Design.

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B Quality of Work (Cont'd)	(B-4) Liaison Effectiveness	Indifferent to requirements of associated activities, related systems, and Shipyard advice.	Satisfactory but dependent on Shipyard of force resolution of problems without constructive recommendations to subcontr. or vendors.	Maintains normal contract with associated activities depending on Shipyard for problems requiring military resolution.	Maintains independent contact with all associated activities, keeping them informed to produce compatible design with little assistance for Yard.	Maintains expert contact, keeping Yard informed, obtaining info from equip, supplies w/o prompting of Shipyard.
	(B-5)	Constant surveillance required to keep job from slipping—assign to low priority to satisfy needs.	Requires occasional prodding to stay on schedule & expects Shipyard resolution of most problems.	Normal interest and desire to provide workable plans with average assistance & direction by Shipyard.	Complete & accurate job. Free of incompatibilities with little or no direction by Shipyard.	Develops complete and accurate plans, seeks out problem areas and resolves with assoc. act. ahead of schedule.
C Effectiveness in Controlling and/or Reducing Costs	(C-1) Utilization of Personnel	Planning of work left to designers on drafting boards.	Supervision sets & reviews goals for designers.	System planning by supervisory, personnel, studies checked by engineers.	Design parameters established by system engineers & held in design plans.	Mods. to design plans limited to less than 5% as result lack engrg. System correlation.
	(C-2) Control Direct Charges (Except Labor)	Expenditures not controlled for services.	Expenditures reviewed occasionally by supervision.	Direct charges set & accounted for on each work package.	Provides services as part of normal design function w/o extra charges.	No cost overruns on original estimates absorbs service demands by Shipyard.
	(C-3) Performance to Cost Estimate	Does not meet cost estimate for original work or changes 30% time.	Does not meet cost estimate for original work or changes 20% time.	Exceeds original est. on change orders 10% time and meets original design costs.	Exceeds original est. on changing orders 5% time.	Never exceeds estimates of original package or change orders.

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<b>TABLE 16-2, CONTRACTOR PERFORMANCE EVALUATION REPORT</b>						
Ratings Excellent						Period of _____ Contract Number _____
Very Good						Contractor _____
Marginal						Date of Report _____
Submarginal						PNS Technical Monitor/s _____ _____
CATEGORY	CRITERIA	RATING	ITEM FACTOR	EVALUATION RATING	CATEGORY FACTOR	EFFICIENCY RATING
A	TIME OF DELIVERY					
	A-1 Adherence to Plan Schedule	_____	x	.40	=	_____
	A-2 Action on Anticipated Delays	_____	x	.30	=	_____
	A-3 Plan Maintenance	_____	x	.30	=	_____
	Total Item Weighed Rating				x	.30 = _____
B	QUALITY OF WORK					
	B-1 Work Appearance	_____	x	.15	=	_____
	B-2 Thoroughness and Accuracy of Work	_____	x	.30	=	_____
	B-3 Engineering Competence	_____	x	.20	=	_____
	B-4 Liaison Effectiveness	_____	x	.15	=	_____
	B-5 Independence and Initiative	_____	x	.15	=	_____
	Total Item Weighed Rating				x	.40 = _____

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C	EFFECTIVE- NESS IN CONTROL- LING AND/OR REDUCING COSTS C-1 Utilization of Personnel	_____	x	.30	=	_____
	C-2 Control of all Direct Charges Other than Labor	_____	x	.30	=	_____
	C-3 Performance to Cost Estimate	_____	x	.40	=	_____
	Total Item Weighed Rating	_____	x	.30	=	_____
TOTAL WEIGHT RATING _____						
Rated by: _____						
Signature(s) _____						
NOTE: Provide supporting data and/or justification for below average or outstanding item ratings.						