Performance Based Contracting

Objectives of Training Course

- Achieve a common understanding of the definition of PBA/PBSA**
- Learn the difference between a scope of work (SOW) and a performance work statement (PWS)
- Learn the difference between a traditional Quality Assurance Plan and a Quality Assurance Surveillance Plan
- Understand and apply the process of writing an effective PWS and QASP
- Explore how incentives can be used with PBSA contracts

**** Formerly PBC**

Day 1 Agenda

0830	Registration and Sign-In
0900	Administration/Introductions/Review of Agenda
0930	Update on Performance-Based Contracting Requirements in Government
1030	Break
1045	Step 1: Establish the Team
1115	Step 2: Decide Which Problem Needs Solving
1200	Lunch on your own
1300	Step 3: Examine Private Sector and Public Sector Solutions
1415	Break
1430	Step 4: Develop a PWS or SOO
1600	Adjourn

Day 2 Agenda

0900	Step 5: Develop and Select Contract Performance Measures
1000	Break
1015	Step 6: Select the Right Contractor
1200	Lunch on your own
1300	Step 7: Monitor and Manage Performance
1400	Break
1415	Application Session: Developing a Performance-Based Contract
1630	Adjourn

Update on Performance-Based Service Acquisition Requirements in Government

Performance-Based Service Acquisition

"Performance-based service acquisition" means structuring all aspects of an acquisition around the purpose of the work to be performed with the contract requirements set forth in clear, specific, and objective terms with measurable outcomes as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work. [Source: FAR 2.101]

PBSA Encourages Innovation

- **FAR 1.102-4**
- If a policy or procedure, or a particular strategy or practice, is in the best interest of the Government and **is not specifically addressed in the FAR,** nor prohibited by law, Executive order or other regulation, Government members of **the Team should not assume it is prohibited.**
- The absence of direction should be interpreted as permitting the Team to **innovate** and **use sound business judgment.**

PBSA Contract Type Requirements

- As of 1980, performance-based contracts were to be used **only** on Firm Fixed Price service contracts.
- As of October 2004, performance-based Firm Fixed Price contracts are to be the **most preferred type** of contract for **all** service acquisitions, but there is flexibility.
- Performance-based cost reimbursement contracts are next preferred if Fixed Price is not appropriate.
- If you can't do a performance-based contract, you can do the project prescriptively, but must justify the decision in the formal or informal Acquisition Plan.

Latest Mandatory PBSA Goals

- Government wide, the goal is 40 % of all service contract *dollars* to be performance-based by FY 2005
  - Use of PBSA is not mandated for Construction, Professional Services, and Information Technology
- Your Agency goals?

More Details on PBSA Goals

- 50% of a contract must be managed as a PBSA in order for a contract to be considered a Performance Based Acquisition
  - Feb 2005 OFPP memo
- IDIQ programmed dollars do not count toward *total* dollars - only dollars awarded under PBSA task orders count

PBSA IS NOT A CHOICE—IT IS A MANDATE!

What Makes a Service Acquisition "Performance-Based?"

MINIMUM REQUIREMENTS

- Results oriented scope
- Measurable performance standards
- Quality Assurance Surveillance Plan (QASP)

Difference Between the Prescriptive Process and the Performance-based Process

- The *prescriptive* approach is built on a predetermined specific solution and lays out a step by step process to achieve that solution.
- The *performance-based* approach is built upon a desired outcome and objectives and does not specifically define or limit the best solution or the process.

Services Acquisition Reform Act (SARA)

- Workforce Training
  - Federal Acquisition Institute (FAI)
  - Eased recruitment policies
- Business Structure
  - Chief Acquisition Officer (CAO)
  - CAO Council
  - Advisory Panel

Why Use Performance-Based Service Agreements?

(Or, what impact will this have on me?)

- Makes Project Management more successful
  - Strengthen role of government oversight
  - Establish and document expectations of contractors
  - Competition creates innovation and efficiency
- Better utilizes and focuses skills of USCG technical personnel
  - Expertise applied to developing PWS and only performance measures that matter
- Improves content of contracts
  - Improved customer and taxpayer satisfaction
  - Government actually gets what it pays for
  - Contractor required to perform to standards or re-perform at contractor expense

Performance-Based Acquisition Working Group Findings – Oct 2005

- Issue
  - Why has Performance-based Services Acquisition not been fully implemented in the federal government?

GAO Review of PBSA

"According to our reviews, agencies may have missed opportunities to take advantage of the benefits offered by…performance based service contracting, because of inadequate guidance and training, a weak internal control environment, limited performance measures, and data that agencies can use to make informed decisions."

--Government Accountability Office

April 2003

Finding 1:

Despite OMB Target, Agencies Remain Unsure When to Use PBSA

OMB Mandate

- OMB target of 40% has increased focus on PBSA as important tool
- However, target has caused some agencies to "force fit" PBSA for some procurements where its value may be limited
- While community resources like the 7-Steps website are helpful, OMB has provided little guidance on implementing PBSA

Misunderstanding Surrounding PBSA: When to Apply

- Agencies express concern that PBSA is not a fit for all contracts
- This observation may be correct for acquisitions where "work activity" is procured without concern for quality or performance results (wherein the agency will take accountability for the quality and performance of the finished product)
- However, the majority of acquisitions can and should benefit from PBSA
- Greater clarity on PBSA's definition and ideal usage should be provided

GAO Evidence

- Major inconsistencies in *how to define* PBC and *when to use* PBC (GAO 2002 Report)
  - Inconsistencies "raise concern as to whether agencies have a good understanding of performance-based contracting and how to take full advantage of it."

Panel Supports PBSA for its Clear Benefits to the Taxpayer

- Increased likelihood of meeting mission needs
- Focus on intended results, not process
- Better value and enhanced performance
- Less performance risk
- No detailed specification or process description needed
- Contractor flexibility in proposing solution
- 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
- 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

From "Seven Steps Process for PBSA" www.acqnet.gov

1998 OFPP Study

- 26 Contracts from 15 Agencies
- $585 Million in net award value (range from $100,000 to $325m)
- Contract Price Impact: 15% cost savings
- Customer Satisfaction: 18% increase (3.3 to 3.9 on 5 pt. scale)
- Contracting Efficiencies
  - Increased number of offers (from 5.3 to 7.3)
  - Decreased contract audits by 93%

Finding 2:

PBSA Solicitations & Contracts Continue to Focus on Activities and Processes, Rather than Performance and Results

Shifting from Defining Work Activities to Soliciting Results

- Performance-based contracting should focus on results achieved, and not the effort or activities undertaken to deliver those results
- Current federal PBCs tend to add a veneer of "performance measures" on top of lengthy, detailed statements of work
- Determining clear, results-oriented performance measures is also a challenge
- Agencies tend to do a poor job defining their "needs" in clear and results-oriented terms

Overcoming Culture and Internal Stovepipes

- From a cultural perspective, it has proved very difficult for agencies to let go of simpler traditional ways of writing contract specifications – telling vendors exactly what to do
- PBSA is not something the procurement community can do alone – program and financial elements within the government must also participate and contribute to make it a success

Finding 3:

PBSA's Potential for Generating Transformational Solutions To Agency Challenges Remains Largely Untapped

"My Mess for Less" vs. Transformational Solutions

- Related to Finding #2, an over-emphasis on "work activity" contracting shuts out innovative market solutions
- Creation of a "baseline" of agency current performance problems is rarely done in a solicitation
- The use of market research—while expanding—is under-utilized in federal acquisitions

Finding 4:

Within Federal Acquisition Functions, There Still Exists a Cultural Emphasis on “Getting to Award”

Slow Down to Hurry Up

- PBSA is a process that requires a significant preliminary effort to clarify agency needs, engage in innovative solutions development, and craft the right measures and incentives.
- This increased up-front investment of time, training and resources flies in contrast to the traditional culture of most acquisition shops under significant pressure from internal clients to get contracts awarded quickly.
- Client demand is exacerbated by an under resourcing in today's Federal acquisition workforce. In many organizations, the personnel and skill sets required to undertake the up-front research and planning simply do not exist

Finding 5:

Post-Award Contract Performance Monitoring and Management Needs to Be Improved

Emphasis on Contract Performance Management is Needed

- Performance-based contracting does not end with the award of the contract; it is an ongoing process of monitoring and managing existing contracts for improved performance.
- Agencies do not adequately collect performance information for individual contracts, let alone review and provide ongoing feedback and corrective action on vendor performance.

Finding 6:

Most Contract Incentives Are Still Not Aligned to Maximize Performance and Continuous Improvement

Use Incentives to Drive Results and Continuous Improvement

- An important element of PBSA is the use of incentives, both financial and non-financial, to promote improved results both agencies and the taxpayer expect.
- Incentives can present a risk if not properly constructed.
- In many cases, incentives are not fully aligned to encourage continuous improvement or innovation by the contractors for the government.

Finding 7:

FPDS Data Are Insufficient and Perhaps Misleading Regarding Use and Success of PBSA

Frustrations with FPDS

- The working group found securing and analyzing data from FPDS to be a major challenge. Months after our initial request for information was submitted by staff, the Panel is still awaiting reliable data.
- Due to misunderstandings surrounding definition and use of PBSA, data may not be consistent and accurate in FPDS
- Much of the information about PBSA's successes and failures is still anecdotal

Changes to the FAR: New Definitions

- Performance Work Statement (PWS)
  - Identifies technical, functional and performance characteristics of Agency's and Client's requirements
- Statement of Objectives (SOO)
  - Alternative to PWS – summary of key agency/client goals, outcomes… incorporated so that competitors may propose solutions, including a technical approach, performance standards, etc
- Statement of Work (SOW)
  - Defines the agency/client requirements in clear, concise language identifying work to be accomplished and how it is to be done

PBSA Critical Success Factors

- Allow plenty of time for planning your contract
- Give technical people more advance notice of projects
- Obtain executive support
- Obtain funding commitment up front
- Invest in training for Project Delivery Team members
- Develop a cadre of PBSA experts
- Share lessons learned and best practices through intranets

Traditional Approach to Developing a Services Contract

Step 1: What tasks do we want performed?

Step 2: How are we going to do these tasks?

Step 3: How are we going to measure to make sure they are done the way we want them done?

Step 4: What are the deliverables?

Step 5: What is the schedule?

Step 6: How will we know when we are done?

Step 7: How will we know we got what we paid for?

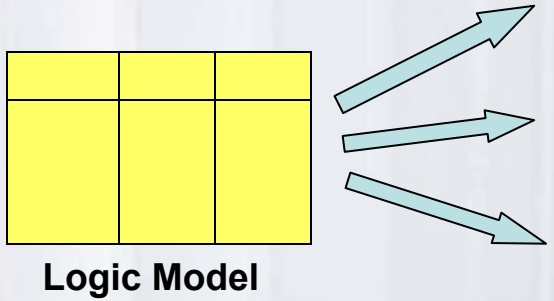
Transitioning to a PBSA Approach

Old Way

SOW + Quality Control Plan → RFP

Contract characteristics:
- Prescriptive
- Government bears risk
- Progress payments

New Way



Statement of Objectives (SOO)
or
Performance Work Statement (PWS)
and
Quality Assurance Surveillance Plan (QASP)

Contract characteristics:
- Outcome based
- Risk shifted to contractor
- Payment for results

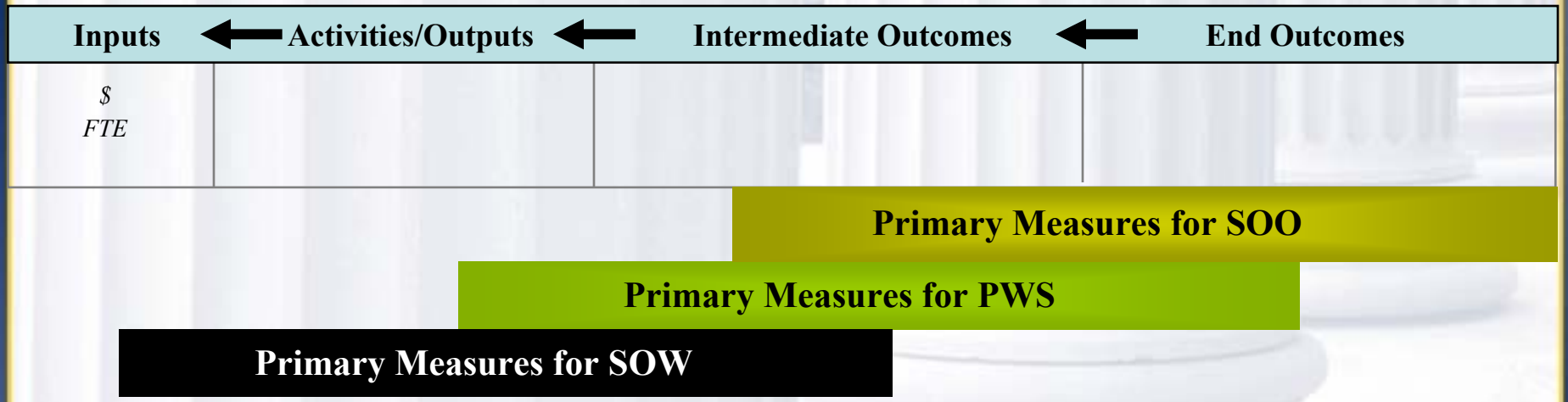
New Approach – Use of a Logic Model

What is a Logic Model?

- A graphic representation that illustrates the rationale behind a program
- Depicts relationships between activities, strategies, and end results
- Contains goals and performance measures for each phase of a program's life cycle
- Integrates various program activities into a cohesive whole
- Is a vehicle for dialogue, planning, program management and evaluation

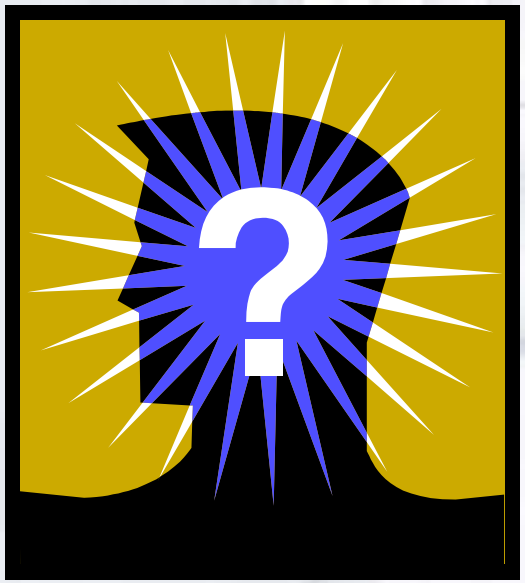
Building a Performance-Based Service Acquisition Contract

Seven Steps Using the Logic Model



Step 1: Establish an Integrated Solutions Team
Step 2: Identify Scope and Anticipated End Outcomes
Step 3: Examine Private-Sector and Public-Sector Solutions
Step 4: Develop a PWS or SOO
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Comments or Questions

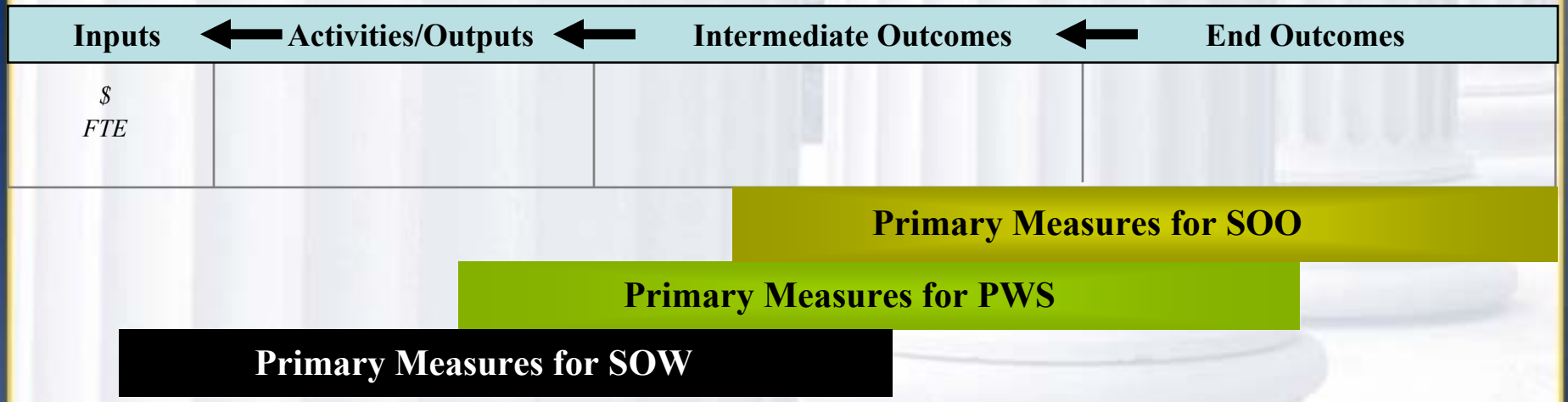


Overview of the Performance-Based Service Acquisition Contract Process

Seven Steps Using the Logic Model

Building a Performance-Based Service Acquisition Contract

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Establish the Integrated Solutions Team

It is essential for the team to:

- Work towards a common goal
- Find solutions that fit agency mission and program needs
- Include all agency internal stakeholders
  - Project managers, scientists/engineers, contracting, legal, field representatives, regulators, etc.

Best Practices

- Ensure senior management involvement and support
- Tap multi-disciplinary expertise
- Define roles and responsibilities
- Develop rules of conduct
- Empower team members
- Identify stakeholders and nurture consensus
- Develop and maintain the knowledge base over the project life
- Incent the team: establish link between program mission and team members' performance

Integrated Solution Team Charter

- Conveys the objectives of the program team
- Defines the scope of the new IST's authority
- States how and by what measure the success of the IST will be evaluated
- Identifies customers and stakeholders
- States the types of expertise the team must have
- States the amount and types of funds available

Ground Rules for Implementing IPTs

- Open discussions with no secrets
- Qualified, empowered team members
- Consistent, success-oriented, proactive participation
- Continuous, "up-the-line" communication
- Reasoned disagreement
- Issues raised and resolved early
- Source: Rules of the Road: A Guide for Leading Successful Integrated Product Teams (November 1995) http://www.ntsc.navy.mil/Resources/Library/Acqguide/guide.htm

Potential Team Players

The Project Delivery Team should include:

- Project Manager
- Office of Counsel
- Contracting (Contract Officer and Contract Specialists)
- Project engineer
- Technical experts
- Field personnel
- Resource Management
- Client
- IG/Auditor

Appropriate Team Makeup is Critical

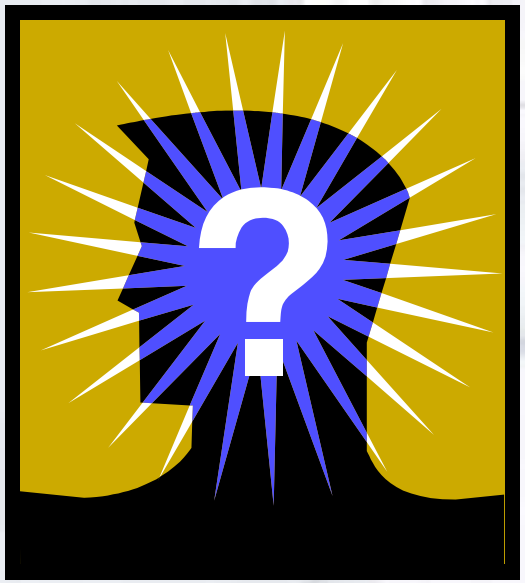
Maintain the Knowledge Base

- http://www.km.gov/
- http://www.uscg.mil/deepwater/

Acquisition Awards

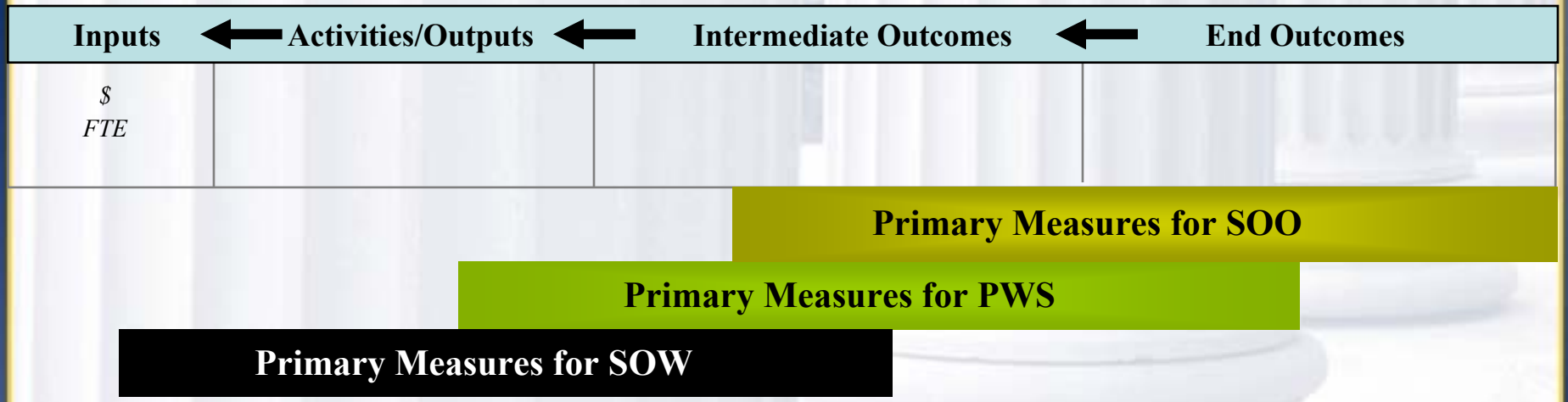
- http://www.acqsolinc.com/awards/awards.cfm

Comments or Questions



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Identify Scope and Anticipated End Outcomes

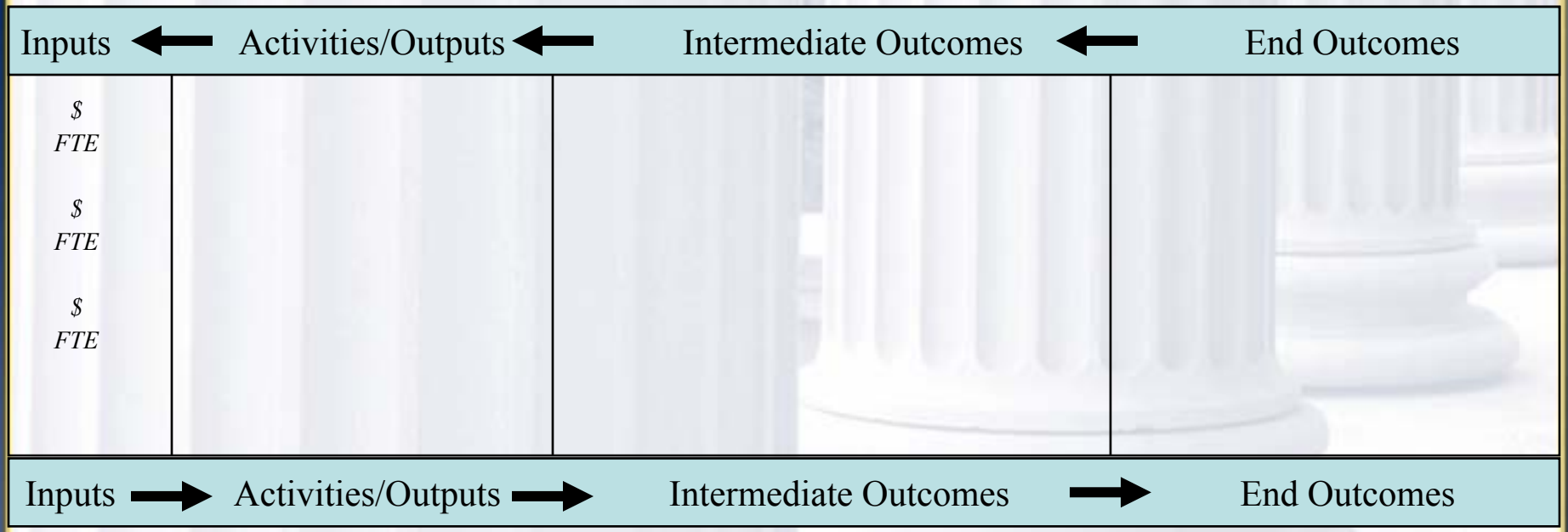
Ask 3 Questions…

1. What do I need?
2. When do I need it?
3. How do I know it's good when I get it?

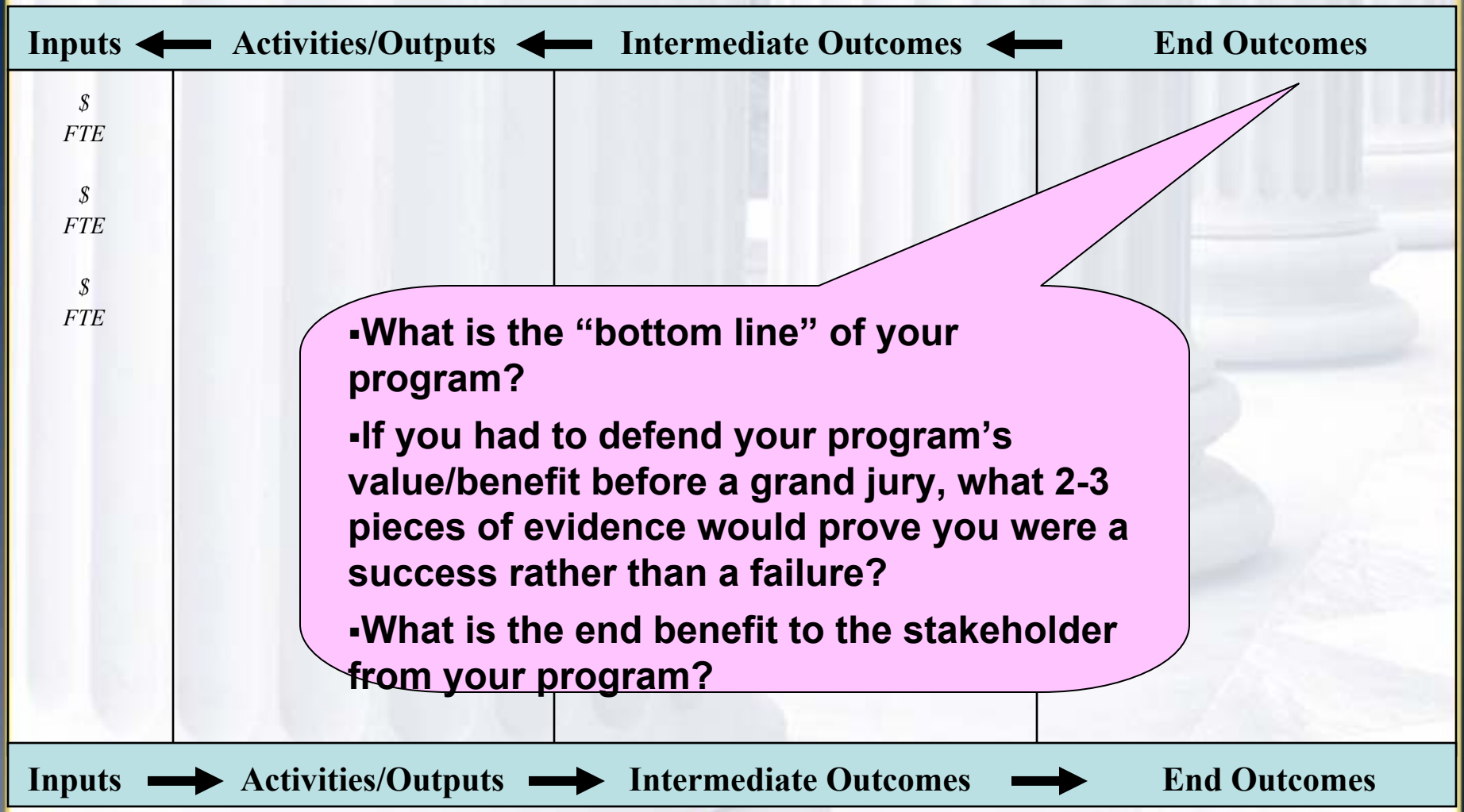
Best Practices

- Align contract to mission and long term objectives
- Provide the context to all team members on what impact the contract will have to the agency/project
- Baseline: What is the current level of performance—i.e. the initial assessment?
- Identify desired level of results
  - Where do I want to go?
- Identify desired level of success
  - How will I know when I get there?
- Context: What specific issues and/or obstacles must be confronted by the contractor?

Developing End Outcomes



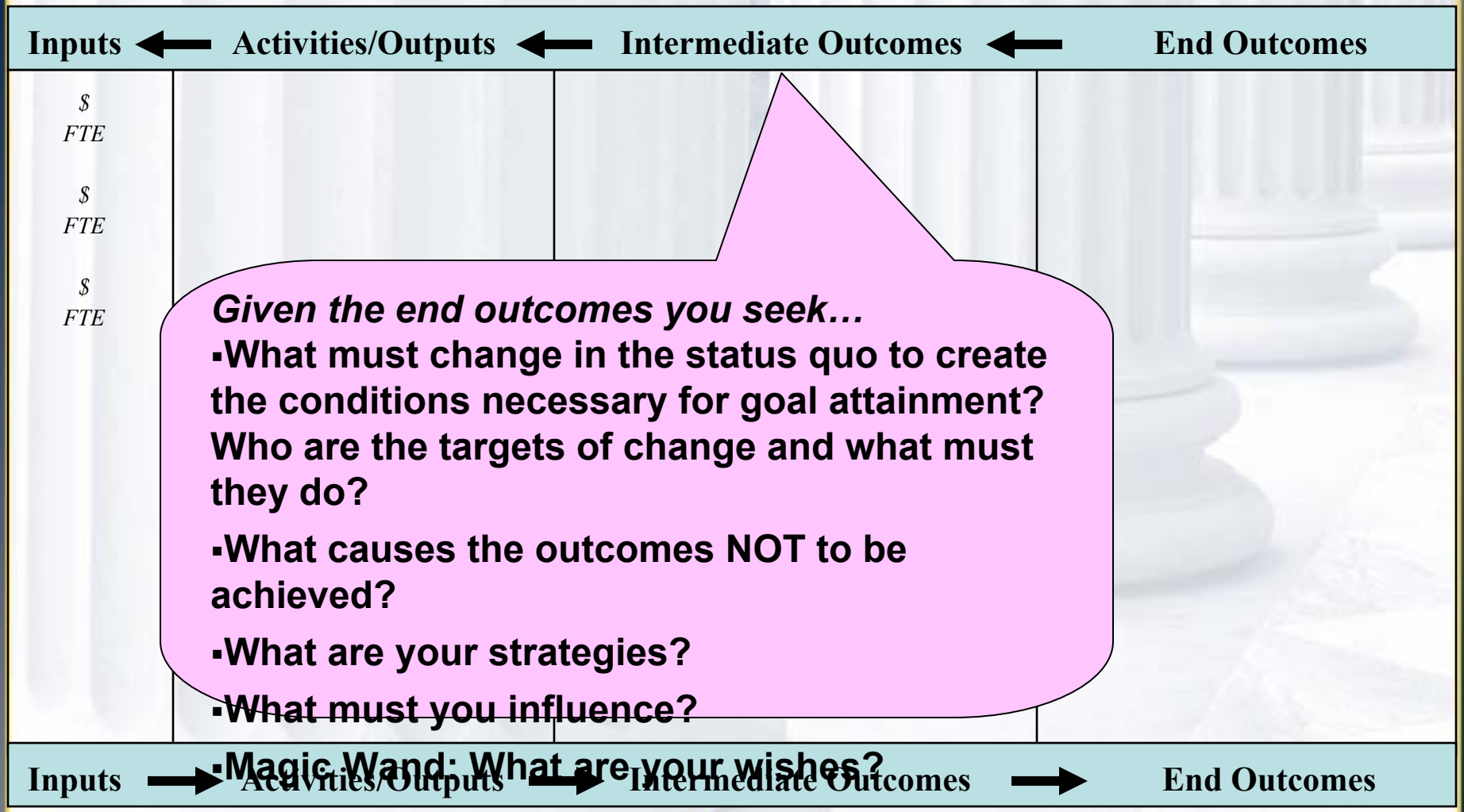
Government Performance Logic Model



CA Highway Repair Project Example

Inputs ←	Activities/Outputs ←	Intermediate Outcomes ←	End Outcomes
$ *FTE* *$* *FTE* *$* *FTE*			**OBJECTIVE:** Restore highway infrastructure to reduce the disruption to the life and economy of Californians **Measure:** -No. of hours in commuting time saved - $ lost to the economy
Inputs →	Activities/Outputs →	Intermediate Outcomes →	End Outcomes

Government Performance Logic Model



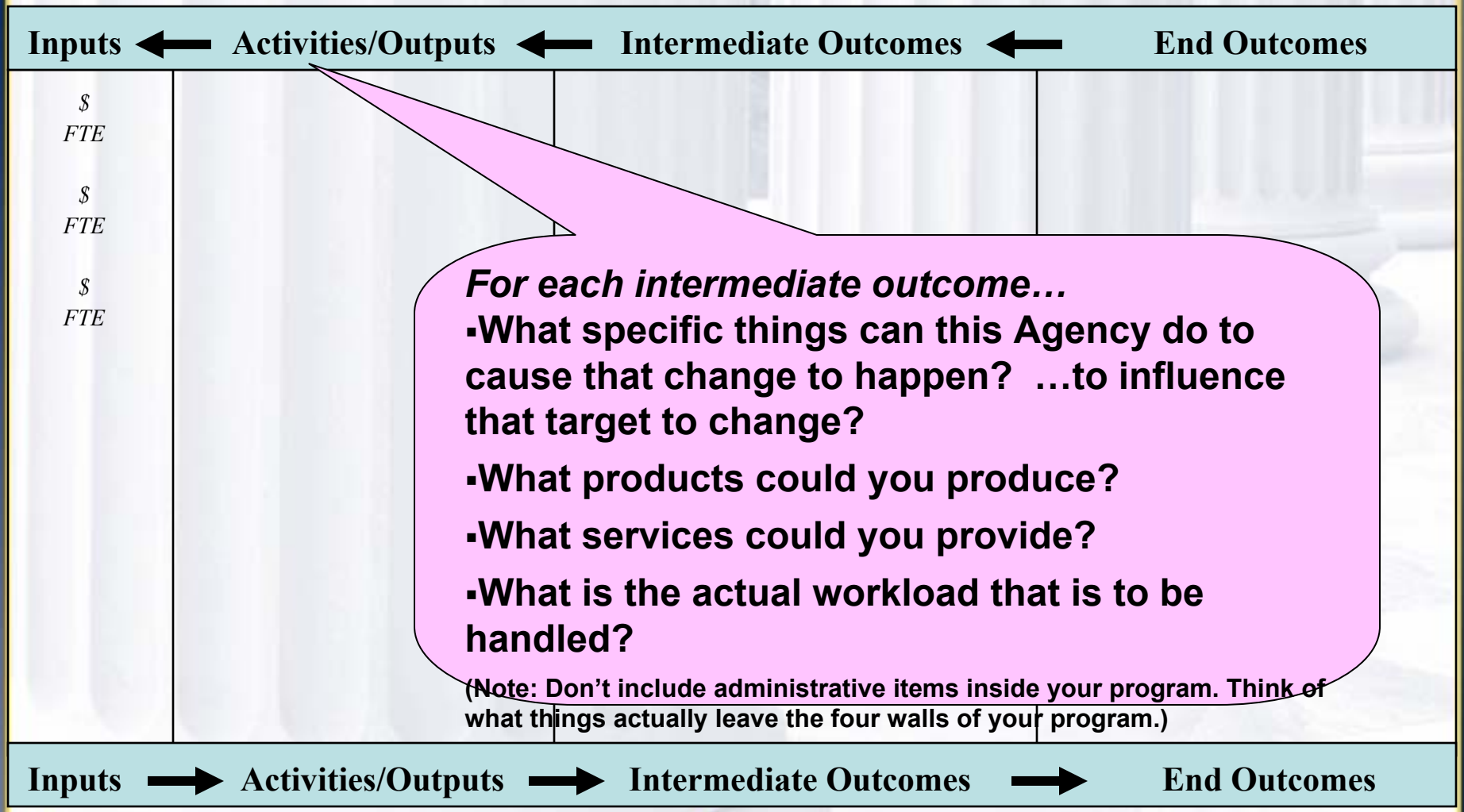
CA Highway Repair Project Example

Inputs ←	Activities/Outputs ←	Intermediate Outcomes ←	End Outcomes
$ *FTE* *$* *FTE* *$* *FTE*		**Short Term Objective One:** Highways and structures rebuilt in accordance with proper construction and agency standards **Measure:** Work completed in accordance with CalTrans performance standards **Short Term Objective Two** Minimized disruption and delay to traffic **Measure:** Change in travel time between key points of destination	**OBJECTIVE:** Restore highway infrastructure to reduce the disruption to the life and economy of Californians **Measure:** -No. of hours in commuting time saved - $ lost to the economy
Inputs →	Activities/Outputs →	Intermediate Outcomes →	End Outcomes

Understanding Intermediate Outcomes

- In a Performance Work Statement, these are the RESULTS of specific contractor outputs
- Learning Point: these are typically NOT action items (i.e. you can't "do" them)
- States what CHANGE must occur for long term objectives to be achieved
- Must be accompanied by a performance measure

Government Performance Logic Model



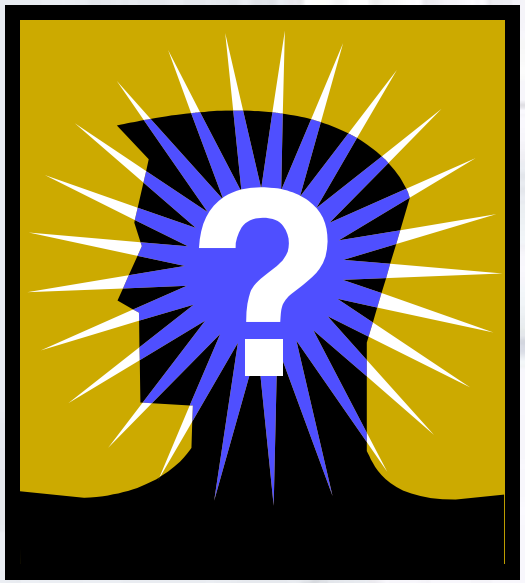
CA Highway Repair Project Example

Inputs ←	Activities/Outputs ←	Intermediate Outcomes ←	End Outcomes
$ *FTE* *$* *FTE* *$* *FTE*	**Output One: Repair or replacement of highways and structures** **Measure:** Percent .of lane miles of highway restored to standards Percent of highway structures restored or replaced to standards **Output Two: Maintenance of Traffic** **Measure:** Percent main highways with alternate routes No. of construction-related accidents	**Short Term Objective One:** Highways and structures rebuilt in accordance with proper construction and agency standards **Measure:** Work completed in accordance with CalTrans performance standards **Short Term Objective Two** Minimized disruption and delay to traffic **Measure:** Change in travel time between key points of destination	**OBJECTIVE:** Restore highway infrastructure to reduce the disruption to the life and economy of Californians **Measure:** -No. of hours in commuting time saved - $ lost to the economy
Inputs →	Activities/Outputs →	Intermediate Outcomes →	End Outcomes

Examples of Defining Activities for Outputs
(Proposed by Contractor in PBSA)

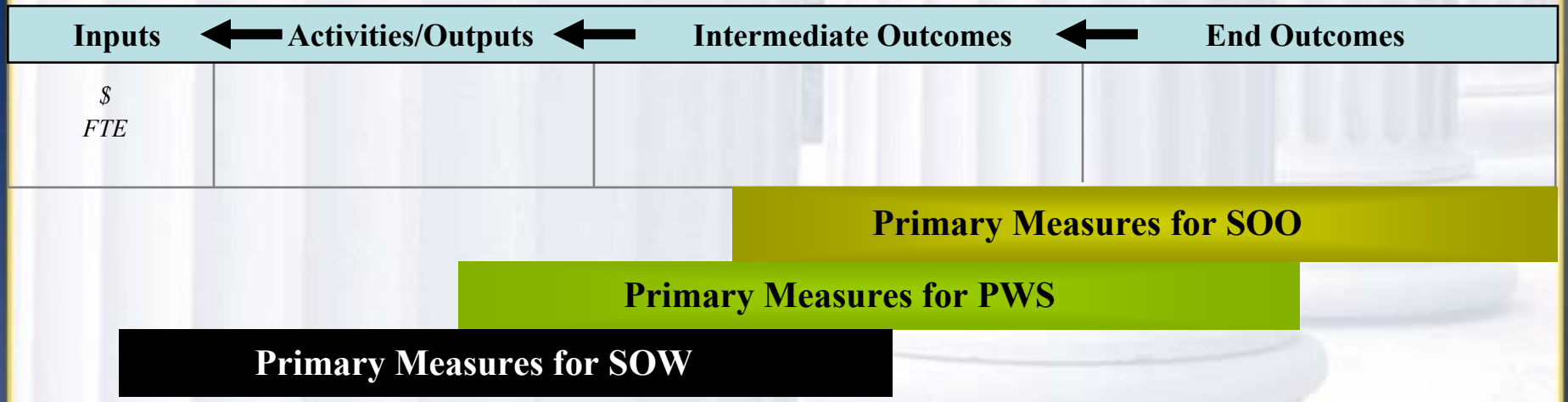
- **Output 1: Build a House**
  - Develop architectural plans (labor)
  - Get permits (labor; materials if permit fee and/or buying city council is needed)
  - Buy land (materials)
  - Construct foundation (labor and materials)
  - Construct frame (labor and materials)
  - Install roof (labor and materials)
  - Etc.
- **Output 2: Government Workers Trained**
  - Develop curriculum (labor cost)
  - Develop training materials (labor and materials)
  - Promote training class (labor and materials)
  - Develop documents (labor and materials)
  - Provide classroom instruction (labor)
  - Rent classroom and buy food (materials)
  - Etc.

Comments or Questions



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Best Practices

- Take a team approach to market research
- Spend time learning from public-sector counterparts
- Talk to private-sector companies before structuring the acquisition
- Consider one-on-one meetings with industry
- Look for existing contracts
- Document market research

Examine Private and Public Sector Solutions

- Commercial Options: Identify commercial options available off-the-shelf or with modification
- Government Options: Streamlined vehicles, ISSAs, and coordinated procurement opportunities
- Competitive Sourcing: Is this part of a managed competition? (If so, follow PWS requirements)
- Market Research Tactics:
  - Public Information: Industry associations, trade groups, corporate profiles, etc.
  - Government Procurement: Vendors of other programs
  - Solicitation: Industry days, requests for information, etc

Make your agency a smarter shopper

Market Research

- Market research is the continuous process of collecting information to maximize reliance on the commercial marketplace and to benefit from its capabilities, technologies, and competitive forces in meeting an agency need.
- Market research is essential to the government's ability to buy best-value products and services to solve mission-critical problems.
- Market research should be undertaken by the integrated solutions team long before attempting to write a performance work statement.

Market Research

- Key part of the early stage of acquisition, not just Contracting Officer's Responsibility
  - Obtain Requirements Information
  - Identify potential vendors
  - Assess the competitiveness of the market
  - Identify commercial practices
  - Identify successful procurements of others

Market Research

- Market research techniques
  - contact industry and government experts
  - review the market research results of others
  - publish requests for information
  - access Internet databases
  - review catalogs and trade journals
  - presolicitation conferences

Who Does Market Research?

- FAR does not specify who performs market research
  - Everyone on the acquisition team should be involved
- Procurement team should partner with using/requiring activities on market research as soon as needs are forecast
- Contracting personnel should be careful not to assume full responsibility for conducting market research
  - The customer has the capability to research the market and certainly possesses more technical expertise than contracting personnel
  - It is important to break the paradigm that only contracting can talk to the "outside world."

Government-Industry Interface

- A few alternatives for the government
  - Search the marketplace through a Request for Information (RFI) for sources and other information
  - Conduct an early-on general conference to explain its PBSA intentions
  - Publish a SOO or PWS for comments and questions or release the draft RFP for comments and questions prior to release of a formal solicitation
  - In a formal solicitation - provide for a pre-proposal conference

Learn From Public-Sector Counterparts

- Talk to counterparts in other agencies
  - This may avert problems that could otherwise arise
- Cross-agency cooperation and collaboration
  - Another agency may have "solved" your problem
  - Services may be available through an interagency agreement
  - Two or more agencies may need to team on a solution that will provide seamless services to the public
- Agencies with similar needs may be able to provide lessons learned and best practices

Need for Improved Communication

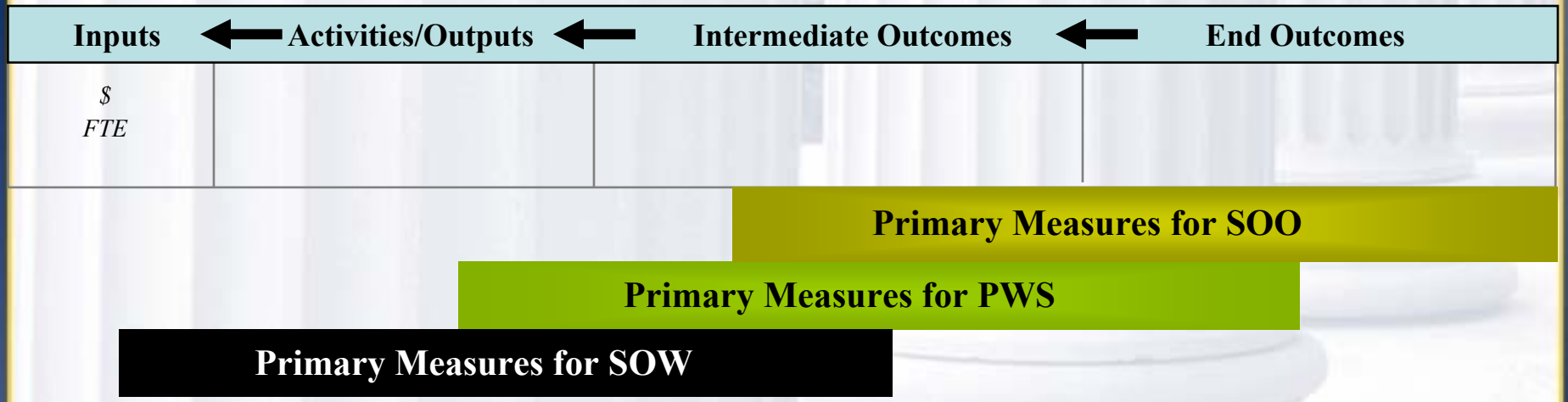
- In 1994, the Administrator for Federal Procurement Policy and 20 Senior Procurement Executives pledged to improve communication practices "through all phases of the acquisition cycle." The pledge found as follows:
- *Complex legal restrictions on the release of sensitive procurement information and agency reactions thereto, while protecting the integrity of the Federal acquisition process, have contributed to an acquisition climate where legitimate and necessary exchange of information is often unduly restricted.*
- *Competitors for Government contracts need information to make intelligent business decisions regarding the prepa-ration of proposals in response to agency solicitations. Also, agencies must be able to obtain enough information to conduct meaningful market research, thus enabling them to effectively consider the latest and best that industry can offer to meet the Government's needs.*

Look for Existing Contracts

- **FAR Part 10** requires that as part of market research, the Integrated Solutions Team must go to www.contractdirectory.gov to see if there is an existing contract available to meet agency requirements.

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Develop a SOO or PWS

- **Statement of Objective (SOO)**
  - Agency defines results to be achieved, and solicits a wide variety of technical solutions from contractors
  - Outputs are not pre-determined by the agency
  - Performance incentives tied to achievement of performance results (impact of outputs) and may include cost, timeliness, quality and impact of outputs associated with contractor's technical solution
  - Provides maximum flexibility to contractor on what work is to be done; provides room for innovation
- **Performance Work Statement (PWS)**
  - Outputs are clear and agency wants to purchase specific outputs
  - Performance incentives tied to cost, timeliness, quality and impact of outputs

Statement of Objective (SOO)

- The SOO is a Government prepared document included in an RFP that states the overall acquisition objectives
- The SOO methodology requires competing contractors to develop the approach to the work and the related quality control plan
- It is used in solicitations to provide the maximum flexibility to offerors to propose innovative solutions

Key components of a SOO

- Scope of work
- Pertinent regulations
- Qualifications of project personnel
- Required Quality Control testing
- Basic requirements for Contractor's Work Plan
- Basic security requirements

NOTE: A QASP is not required at this level—the Contractor will provide a proposed approach to the work and to quality control. The government will then develop a draft QASP to accompany a task order-specific PWS

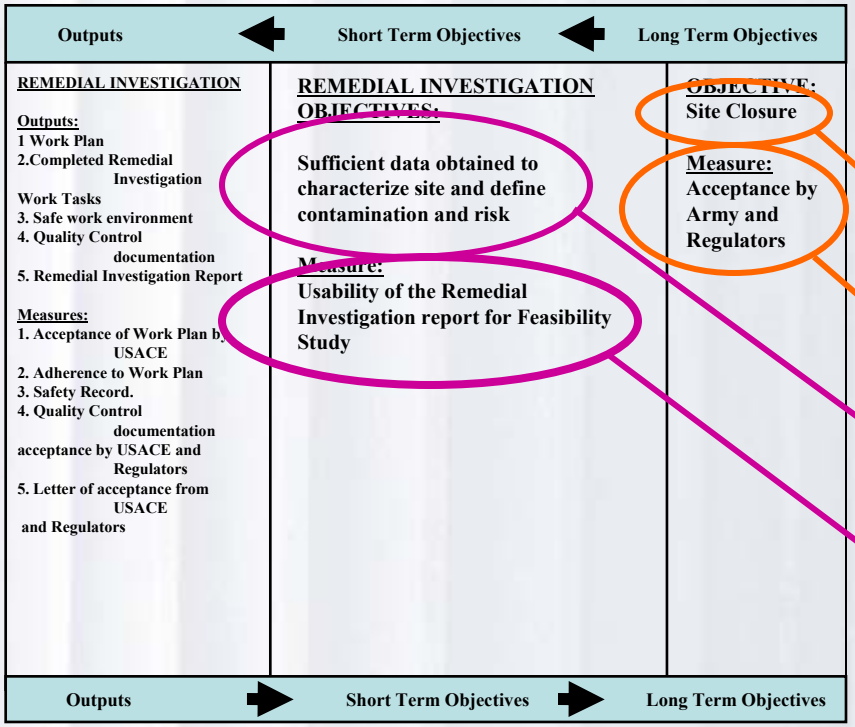
Development of a Statement of Objective (SOO)

- Used for large multi-year contracts that use a series of work orders
- The objective of the SOO ties back to the desired end outcome
- It establishes the overall performance requirements of the contract

Developing the SOO

- Describe the scope
  - Establish size and range of services needed
  - Consider available funds to fund the acquisition
  - Make sure that they requirements are realistic and competitive
- Incorporate performance objectives
  - Mission related, measurable
  - Let the contractor submit the metrics and quality assurance plan (QAP) – especially since the solution is not known
- Make sure the government and contractor share objectives
  - Work in partnership toward a common goal
  - Make the contractor part of the team

Mapping the Logic Model to the SOO



Statement of Objective (SOO)

Section 1

Section 2: Performance Objectives

Long Term Objective(s)

Performance Measure(s)

Short Term Objective(s)

Performance Measure(s)

Section 3

-
-
-

Performance Work Statements (PWS)

- A document describing the minimum requirements for performance of tasks under a contract and standards of performance for determining if the requirements have been met
- Replaces the old "SOW"
- May also serve as the Statement of Objectives
- Gives Contractor the flexibility to propose solutions which meet requirements but where the approach is tailored to their optimal technical/business approach
- A PWS must be accompanied by a draft Quality Assurance Surveillance Plan (QASP)

Performance Work Statement (PWS)

- Since the PWS is written in terms of the project general performance requirements and objectives, the contractor's methods of accomplishment are proposed by the contractor in the required Work Plans, which must be approved before a Notice to Proceed is given.
- Applicable laws, policies and regulations are incorporated into the work methodologies and followed by the contractor in execution.

Performance Work Statement Compared to a Statement of Work

- A PWS describes the work to be done in terms of the purpose of the work rather than either "how" the work is to be done or the number of hours to be provided
- A SOW describes the work to be done but is very prescriptive in how it is to be accomplished or the anticipated level of effort

Key Components of a PWS

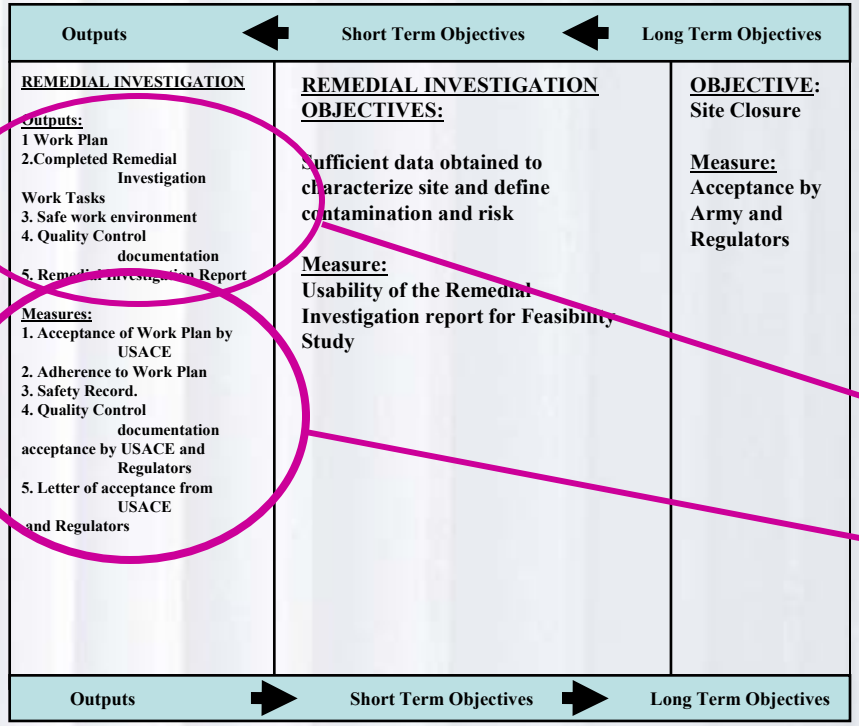
- Project objective
- Project history/background
- Project performance measures
- Deliverables
- Communication protocol
- Project schedule

Remember – the QASP accompanies the PWS as part of the RFP

Development of a PWS

- Created for a specific task order
- Can be single or multiple task project
- Is site specific
- May build on requirements set forth in the SOO or stand alone
- Performance Standards should be tied to Performance Assessment Rating Categories to permit standardized rating of performance for Project Performance Information Management System (PPIMS)
- Requires a QASP to be used for monitoring performance

Mapping the Logic Model to the PWS



Performance Work Statement (PWS)

Section 1

Section 2

Section 3: Work Components

Output(s)

Performance Measure(s)

Section 4

- •
- •
- •

Quality Assurance Surveillance Plan (QASP)

- The QASP is a Government developed and applied document used to make sure that systematic quality assurance methods are used in the management of the performance-based contract.
- The purpose of the QASP is to assure that the contractor performance in accordance with the requirements set forth in the PWS.

Distinction Between The QASP and The Quality Control Plan (QCP)

- The QASP is developed and put in place to provide Government surveillance of the contractor's Quality Control efforts. A sample of a typical relevant QASP is included along with the PWS in the RFP.
- The QCP is developed and submitted by the contractor as part of his Work Plan.
- The contractor uses his QCP as a guide to document implementation of their required management and quality control documents to achieve the specified results.

Key Components of a QASP

- Statement of purpose
- Roles and responsibilities of participating government officials
- Performance Metrics for contractor's Performance Assessment Record (PAR)
- Methodology for monitoring contractor performance (i.e. Surveillance Activities)
- Quality Assurance check lists
- Corrective Action and Milestone reporting forms

Development of a Quality Assurance Surveillance Plan (QASP)

- Created for a specific PWS
- Ties to PWS performance measures set forth in the SOO
- Provides a performance-based approach to ensure quality performance by the contractor
- Serves as the basis for contractor evaluation

Establish a Performance Matrix

- 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?

Basis for Incentives/Disincentives

- Both are much more effective if they involve money
- Incentives/disincentives must be tied to performance measures, preferably quantifiable rather than qualitative
- Incentives/disincentives cannot be tied to factors outside the contractor's control
- Thorough documentation is critical to administering a program of incentives/disincentives

Incentives

- Incentives should represent the value of service lost or achieved
  - Look at the impact of non-performance
  - Reward for Good Performance
  - Penalize for Bad Performance
- Contractor should have the opportunity to earn profit/fee based upon the amount of risk they incur
- Be willing to pay for good performance but Contractor must accept responsibility for poor
  - Helps build trust which is essential to PBC to work

Incentives Are Not Free

- There are hidden costs of incentives.
  - Most require an infrastructure for monitoring, evaluating, and determining contractor performance.
  - Complex incentive arrangements, unless justified, can prove to be unwanted and costly.
- Key question: Will an incentive arrangement provide a benefit for the user that equates with its cost?

Examples of Incentives

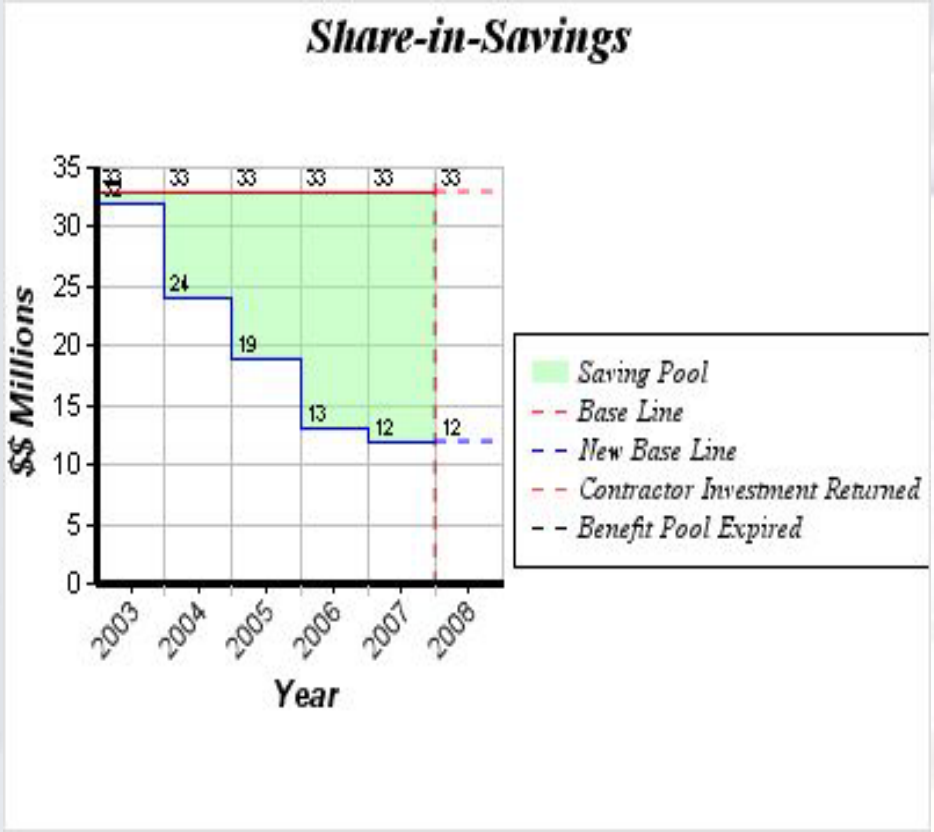
- Monetary reward for exceeding milestones or performance standards
- Increased number of task order awards as a result of outstanding performance
- Sharing of realized long-term savings to the government
- Incentive fees
- Award fees

Award Term Incentive

- Contractor may earn five years of contract extension up to 10 years.
- Award term evaluation method
  - Positive or negative points accumulated during each evaluation period.
  - 75 to 100 points required for a one-year extension.
- Award term points are made for each three-month evaluation period.
- Contractor must earn 75 points for base and first option year and 100 points for option years two through four to earn an award term.

Innovative Contracting Strategies: Share-in-Savings

- Special contracting and funding strategy:
  - Little or no "upfront" funding
  - Payment from the *savings* or *revenue*
  - INTERdependence with industry
- 90-99% of risk on contractor
- Payment made only *AFTER* substantial results are achieved
- Pay only for results—not just *effort*.



Example - Integrated Deepwater System Acquisition Performance Incentives

- In addition to the overarching award term incentive, the Government believes there may be value in offering additional performance incentives motivating superior effort on specific task and delivery orders, assets or system performance attributes. The Government intends to use performance incentives to motivate the Contractor to achieve the following objectives:
- Exceed proposed IDS performance with respect to the Coast Guard program objectives of maximized operational effectiveness and minimized total ownership cost.
- Constructively and promptly respond to the inevitable changes in IDS mission requirements, demand and environment, funding profiles, and implementation schedules.
- Maximize customer/user satisfaction with IDS assets, capabilities and services.

Examples of Disincentives

- Monetary penalty for unsatisfactory performance in technical performance and/or cost control
- Decision not to exercise option for another year
- Elimination of consideration from further contracts
- Rework at contractor's cost

Components of a PBSA Request for Proposal (RFP)

- Standard Solicitation Form
- Section B—Supplies or Services and Prices/Costs
- Section C—Statement of Objective or Performance Work Statement ***
- Section E--Inspection and Acceptance of Services
- Section F—Deliverables or Performance
- Section G--Contract Administration
- Section H—Special Contract Requirements
- Section I—Federal Contract Clauses
- Section K—Representations, Certifications/Other Statements of Offerers
- Section L—Instructions, Conditions, and Notices to Offerers
- Section M—Evaluation Factors for Award

*** *Replaces Scope of Work in prescriptive type of contract*

Performance-Based Service Agreement –Section C of Request for Proposal

Included in RFP as Section C:

- Statement of Objective (SOO)

  OR

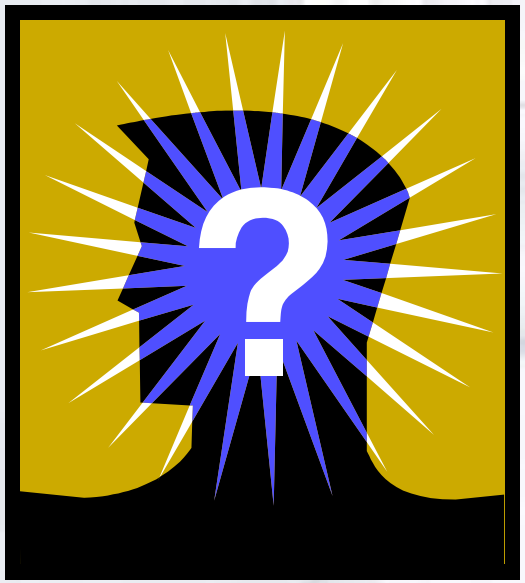
- Performance Work Statement (PWS) and
- Sample of Quality Assurance Surveillance Plan (QASP)

Note: Work Plan and Quality Control Plan are to be submitted with the contractor's proposal

Let the Contractor Solve the Problem

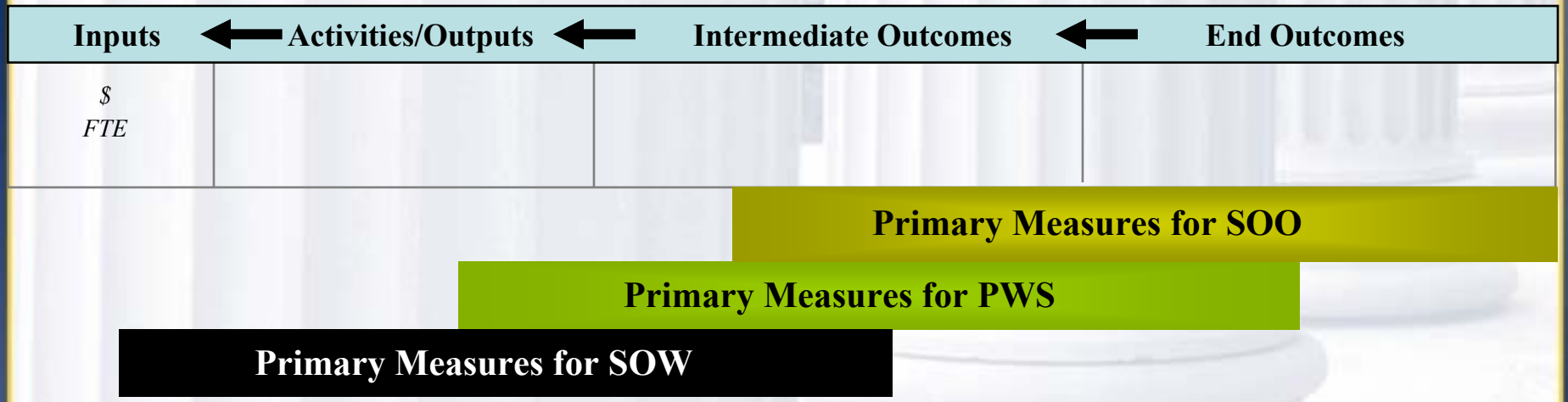
- The significant problems we face cannot be solved at the same level of thinking we were at when we created them.
  - Albert Einstein

Comments or Questions



Building a Performance-Based Service Acquisition Contract

Seven Steps Using the Logic Model



Step 1: Establish an Integrated Solutions Team
Step 2: Identify Scope and Anticipated End Outcomes
Step 3: Examine Private-Sector and Public-Sector Solutions
Step 4: Develop a PWS or SOO
Step 5: Develop and Select Performance Measures
Step 6: Select the Right Contractor
Step 7: Monitor and Manage Performance

Measuring and Managing Performance Best Practices

- Review the success determinants
- Rely on commercial quality standards
- Have the contractor propose the metrics and the quality assurance plan
- Select only a few meaningful measures to judge success
- Include contractual language for negotiated changes to metrics
- Apply the contract-type order of precedence carefully
- Use incentive-type contracts
- Consider “Award Term”
- Consider other incentive tools
- Recognize the power of profit as motivator
- Consider the relationship

Develop and Select Performance Measures

- Significant technical challenges in developing Performance Measures
  - Too many Measures
  - Wrong kinds of Measures
    - Too process and activity oriented
    - No clearly defined "Logic Model"
  - Dumbing-down of Measures
    - Measuring only the things you can count
    - Not measuring things that are strategically important

Performance Definitions

- Measures
  - The means to determine performance
- Standards
  - The desired level of performance
- Example:
  - Measure = temperature (degrees Fahrenheit or Celsius) – measure of warmth in room
  - Standard = 70 degrees – the desired temperature

Work Process Mapping

Input ←	Activities ←	Outputs ←	Intermediate Outcomes ←	End Outcomes
$ FTE	**Output 1** -Activity A -Activity B -Activity C -Activity D **Output 2** -Activity E -Activity F -Activity G -Activity A -Activity B Etc. Etc. *For some activities, process measures can be devised.*	**Business Line 1** -Output 1 Workload Measure -Output 2 Workload Measure **Business Line 2** -Output 3 Workload Measure -Output 4 Workload Measure -Output 5 Workload Measure Etc. Etc.	**Strategy 1** -IO Performance Measure -IO Performance Measure **Strategy 2** -IO Performance Measure -IO Performance Measure -IO Performance Measure **Strategy 3** -IO Performance Measure Etc. Etc.	**Outcome Goal** Outcome Measure 1 Outcome Measure 2 Outcome Measure 3

Brainstorming Exercise

What are the characteristics of a "good" performance measure?



Performance Measure Selection Criteria

Meaningful	Reports tangible and significant accomplishments against objectives; useful fordecision makers and other stakeholders
Clear	Easily understand by managers, partners, other stakeholders; tells clear story
Legitimate	Accepted or legitimated by those who must use the data
Consistent	Clear definition and data collection methodology across populations
Reliable	Captures what it purports to measure in an unbiased fashion
Granular	Able to detect performance movement
Relevant	Does not become obsolete too earlier: sets a pattern or baseline of performance

Performance Measure Selection Criteria

Technically Adequate	Available data meets technical adequacy standards such as accuracy, validity, timeliness
Responsible	Does not have unintended and undesirable consequences
Actionable	Indicates what is good or bad, driving desired behavior and the timing of action
Accountable	Related to direct action or influence of an accountable and attributable entity
Balanced	One of set of measures providing a clear picture of the full range of performance
Vital	Measures are mutually exclusive and collectively exhaustive
Feasible	Reasonable cost and accessibility of data that is not already collected

How to Set Performance Standards/Targets

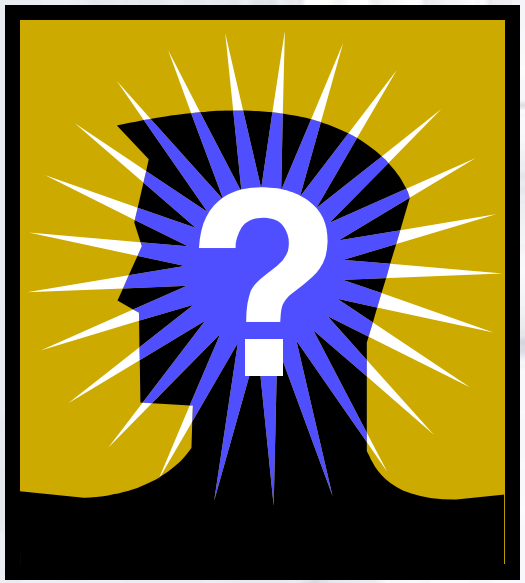
- Regulatory requirements
- Empirical evidence
- External benchmarks
- Executive decree
- Fiscal realities
- Commercial/industry standards

Consider the Relationship

- **Integrated Deepwater System Acquisition Partnering Agreement**
  "The Contractor and the Government shall execute, within 6 months after contract award, a partnering agreement. The purpose of a partnering agreement is to build an environment that encourages open communication and fosters the achievement of mutual goals. The partnering agreement shall address how the parties plan to identify and solve problems, and how the parties plan to anticipate and avoid claims and disputes. All parties will attempt to resolve disputes through the least litigious manner, including alternative dispute resolution."

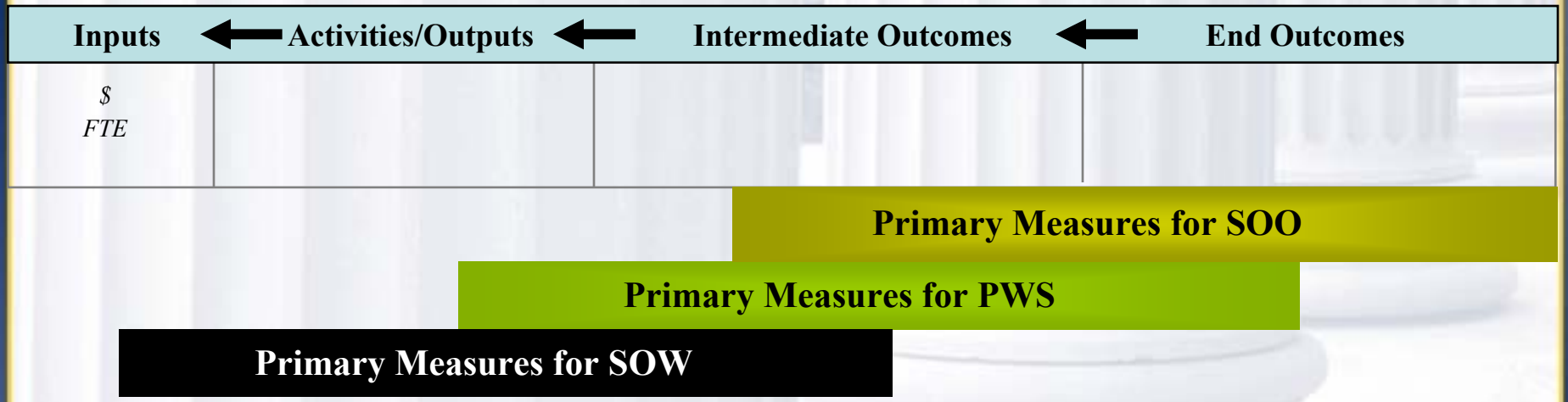
Rely less on management by contract...
and more on management by relationship

Comments or Questions



Building a Performance-Based Service Acquisition Contract

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Select the Right Contractor

- Develop source selection criteria ** (Section L)
- Emphasize best-value approach
- Cast wide net for maximum competition
- Emphasize past performance based on YOUR criteria
- Examine conflicts-of-interest
- Examine financial stability (particularly with shift away from fee-for-service)

** With a SOO as Section C, much more detail must be included in Sections L and M, with regard to technical requirements

Contractor Selection

- Starts with your acquisition strategy
- Especially important in performance-based acquisition
- The contractor must:
  - Understand the performance-based approach
  - Know or develop an understanding of the agency's requirement and vision
  - Have a recent history of performing with at least a Satisfactory Rating in the field related to your project requirements (Access the Past Performance Information Management System-PPIMS to evaluate past performance)
  - Show the processes and resources in place to support the mission

Contractor Selection

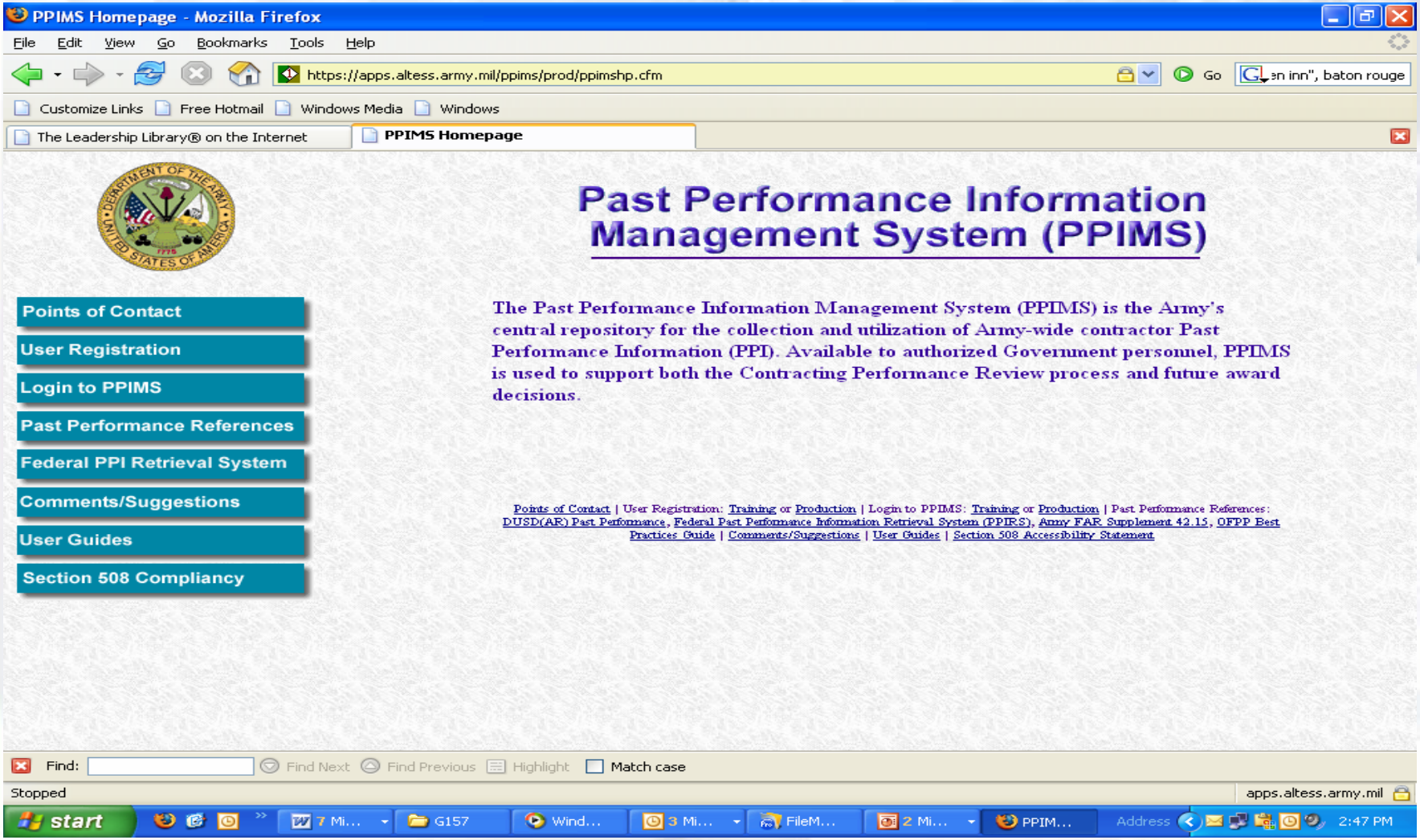
- Key part of any program
- Evaluation criteria and proposal instruction should be tied to the requirement
  - Should lead to successful outcome
  - Use only areas/factors that provide true discriminators
  - Avoid diluting the evaluation with too many areas and factors
- Make sure the contractor understands what is important regarding your requirements

Past Performance Information Retrieval System (PPIRS)

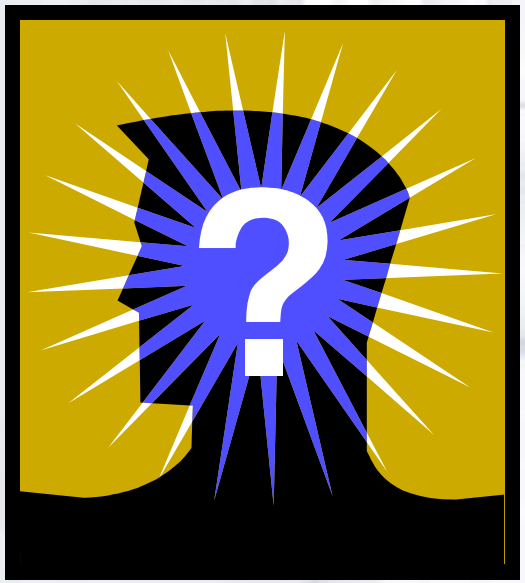
- Web-enabled, government-wide application that provides timely and pertinent contractor past performance information to the Federal acquisition community for use in making source selection decisions.
- http://www.ppirs.gov/

PPIMS Home Page

https://apps.altess.army.mil/ppims/prod/ppimshp.cfm

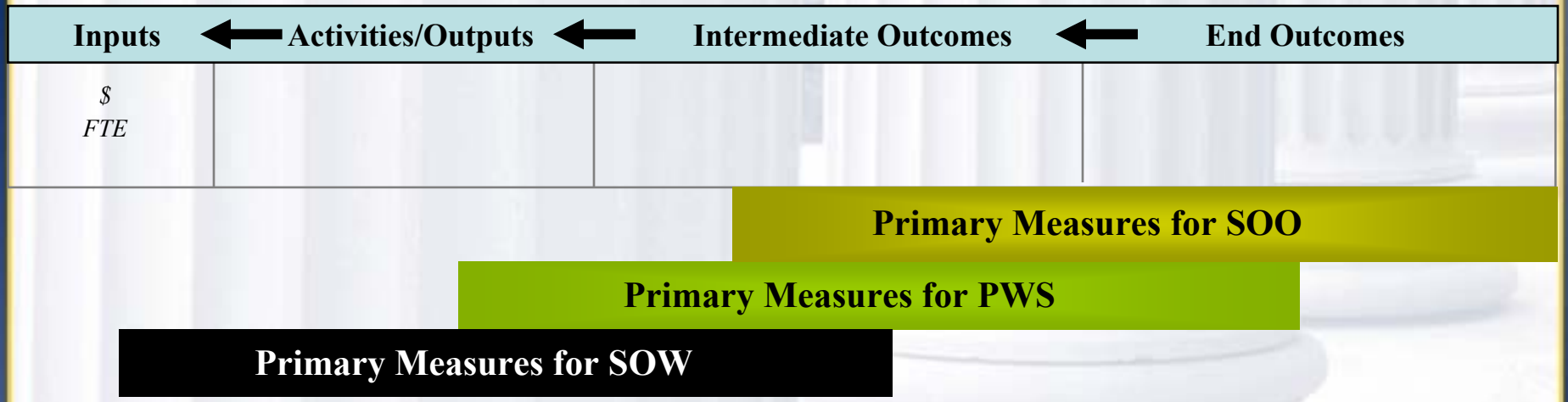


Comments or Questions



Building a Performance-Based Service Acquisition Contract

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Keys to Success

- Keep the team together (to the extent possible!)
- Adjust roles and responsibilities
- Assign accountability for managing contract performance
- Form Government/Contractor Integrated Product Team (IPT) at kickoff meeting
- Regularly review performance in a Contract Performance Improvement Working Group
- Ask the right questions
- Report on the Contractor's past performance

Keys to Success
Ask the Right Questions

- Are we measuring the right thing?
- How are we doing?
- Is the project 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?

Monitor and Manage Performance (Using the QASP)

- Management starts with the incentives and payment milestone structure
- Maintain team-based management approach to PBSA after award
- Involve the technical experts continuously in evaluating contractor performance
- Develop capacity for collecting and analyzing performance information on contracts
- Establish mechanisms for validity and verification checks on performance information

Monitor and Manage Performance (Using the QASP)

- Manage change - kick-off meeting, transition period, and rollout
- Benchmark and compare…continually push for improvements
- Exercise “corrective” mechanisms if performance is off track
- Report Contractor's performance regularly and document thoroughly
- At the end of the project, document Contractor performance in PPIMS Performance Assessment Rating (PAR)
- PAR categories include Schedule, Cost, Management of Resources, Safety, Business Relations, and Quality of Products and Services

Monitoring Through Acceptable Quality Levels

- Number of unacceptable outcomes that government will accept
- Recognize that unacceptable work happens and zero tolerance drives costs
- Set a limit on how much will be accepted before penalizing the contractor (established in contract)

AQL Checklist

- Are they realistic?
- Do they represent true minimum levels of performance?
- Do they consider the cost trade-offs?
  - Use market research to determine this
- If a percentage error, is the basis well understood?

Performance Requirements Summary

- The tasks that the contractor must perform
- The standards and AQLs for those tasks
- The surveillance method/measure used by the government to monitor those tasks
- Usually listed as an exhibit or appendix to the RFP and resulting contract

Indicators, performance standards, AQL, and value of tasks are contained in Performance Requirements Summary

Sample PRS

Task	Standard	AQL	Surveillance Methods/ Measures	Incentive
Develop an accounts payable system that produces timely payments	85% of payments made by due date	75% of payments made by due date	Verifying data with financial records	Reduction in Contract price for less than AQL; addition for exceeding AQL

Summary of Keys to Success for a PBSA

- Willingness to Innovate
- Two-way Communication
- Incentive to Succeed
- Agility
- Mutual Trust

Two-way Communication

Good communication (early, substantive, and continuous) between all parties and the contractor is key to building the trust necessary to make this process a success.

Incentive to Succeed

- The “risk” factor inherent in a performance based contract insures that the contractor has the strongest possible incentive to succeed.
- This risk results in the highest visibility of the project in the contractor’s company, and as a result the company’s resources are focused on the project.

Agility

- The contractor must have the ability to react quickly to changed conditions.
- The performance based service agreement is written to accommodate this.

Trust

- Build a culture of mutual trust and respect – government should set the tone
- View the PBSA as a win-win situation—not a win-lose. No one wants to do business with a loser!

Success Stories

California Earthquake Repair

Jersey City Water System

Oklahoma Rehabilitative Services

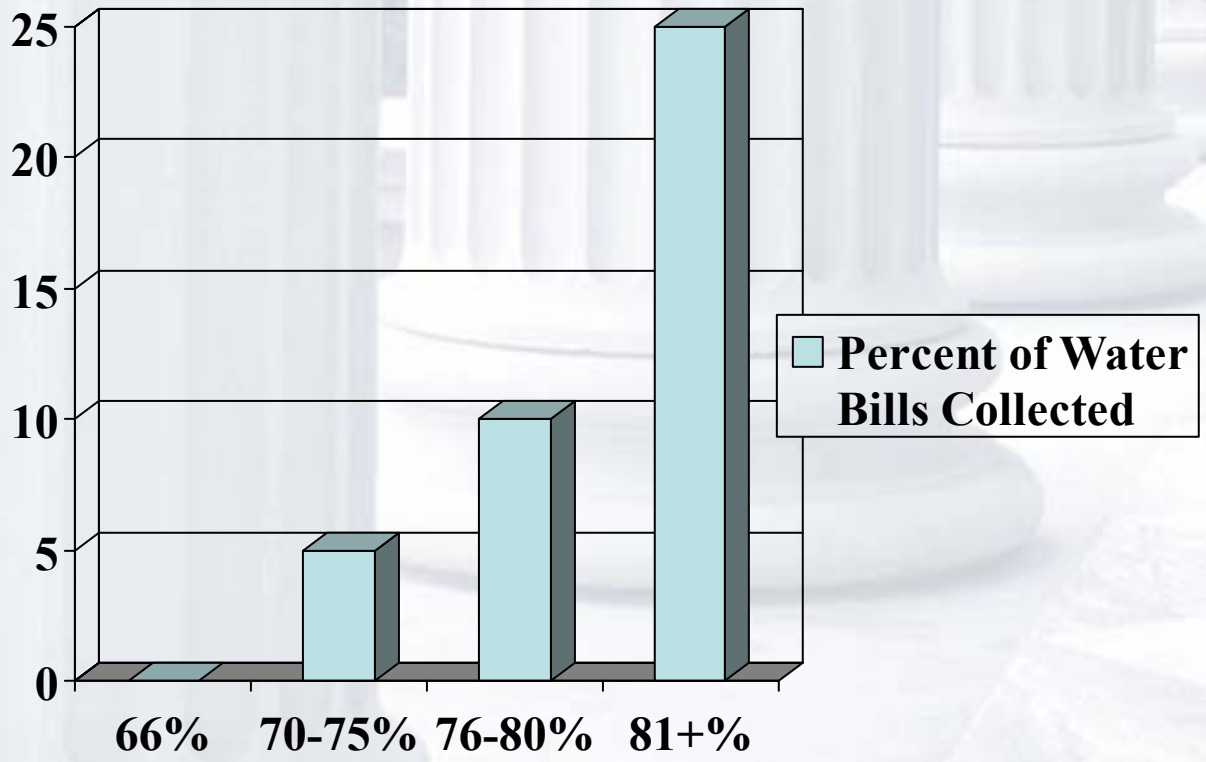
North Carolina Adoption Program

California Earthquake Repair

- Financial Incentives:
  - $200k/day (bonus or penalty)
  - $13.8 million given in performance bonuses
- Savings
  - $74 million to local economy (end-outcome)
  - $12 million on contract administration
- Construction Time
  - 2 months vs. an estimated 9-24 months

Jersey City Water System

Contractor Incentive— Percent of additional collections above current rate of 66%



OK Community Rehabilitation Services Unit

Paying contractors at predefined milestones

- Determination of consumer needs (10% of bid)
- Vocational preparation completed (10% of bid)
- Job Placement (10% of bid)
- Four weeks of job retention (20% of bid)
- Job stabilization of 10-17 weeks of retention with minimal support contacts (20% of bid)
- Consumer rehabilitated: no support contacts 90 days after stabilization period (30% of bid)
- Costs per placement declined by 51%, waiting lists for clients dropped by 53%, and the number of individuals who failed to get a job fell by 25%.

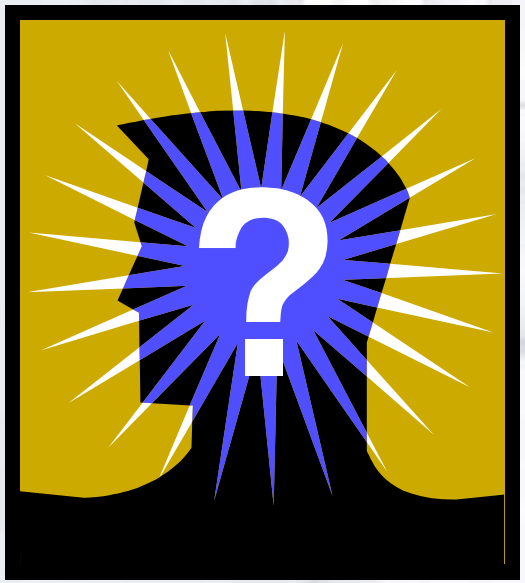
North Carolina Department of HHS Adoption Program

Paying contractors at predefined milestones

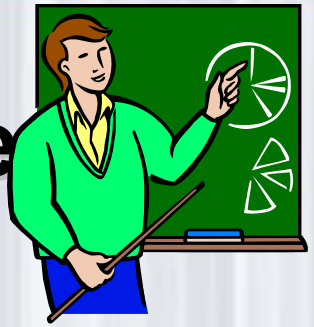
- Placement for the purpose of adoption (60 percent of average placement cost)
- Decree of adoption (20 percent of average placement cost)
- One year of intact placement after decree (20% of average placement cost)

Adoptions rose from 261 in 1994 to 364 in 1996, 660 in 1998, and 1338 in 2001.

Comments or Questions



Key Learning Points Revisited



- Performance Based Contracting is a great contracting tool, but not a panacea
- Performance Based Contracting is a team effort, not just a contracting effort
- Keys to success of Performance Based Contracts are knowing the desired outcomes of the acquisition and managing the contractor's performance to demonstrate results
- Allow yourself enough time to plan the acquisition properly

Wrap-Up

- Course Evaluation
- Certificates
- Follow-on support
  - Free 1 hour consultation
  - Additional training courses / certification programs
  - On-site training
  - Consulting services
- Contact instructor with any questions
  - 703-894-0481
  - E-mail: tettelbach@performanceweb.org

References and Resources

AcqNet
http://www.acqnet.gov

Seven Steps to Performance-Based Services Acquisition:
http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/index.html

Making Performance-Based Contracting Perform: What Federal Departments and Agencies Can Learn From State and Local Governments:
http://www.businessofgovernment.org/pdfs/Martin2Report.pdf

San Diego County PWS:
http://buynet.sdcounty.ca.gov/Solicitations/OpenSolicitations.asp

Implementing a Team-Based Approach to Contracting
http://www.businessofgovernment.org/pdfs/DenhardtReport2.pdf

Share-in-Savings Best Practices
http://www.gsa.gov/Portal/gsa/ep/channelView.do?pageTypeId=8203&channelPage=%2Fep%2Fchannel%2FgsaOverview.jsp&channelId=-13079

Most Relevant Regulations

- FAR Subpart 37.6, **Performance-Based Contracting**
- FAR Part 37, **Service Contracting**
- FAR 1.102, **Statement of Guiding Principles for the Federal Acquisition System**
- FAR Part 7, **Acquisition Planning**
  (notably Subpart 7.5 and provisions at 7.105)
- FAR Part 10, **Market Research**
- FAR Part 11, **Describing Agency Requirements**
  (notably provisions at 11.101 and 11.106)
- FAR Part 46, **Quality Assurance**
  (notably provisions at 46.103 and 46.401)
- **Federal Acquisition Streamlining Act of 1994**