Surveillance of Information Technology (IT) Performance Based Service Acquisitions (PBSAs)

By: Suzanne McGregor
   Elvia Jaggers
   December 2005

Advisors: Marshall Engelbeck
           Rene Rendon

Approved for public release; distribution is unlimited.
THIS PAGE INTENTIONALLY LEFT BLANK
The views expressed in this report are those of the author(s) and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

Approved for public release; distribution is unlimited.

GAO report 05-274 states nearly half of an organization’s yearly budget is being spent on services. Consequently, DoD must ensure that contractors performing these services are being effectively monitored. The purpose of this joint applied project is to examine IT performance based service acquisitions and assess what performance measurements are being used to gauge the contractor’s effectiveness. This research project will provide a literature review of Performance Based Contracts (PBCs), Performance Based Service Contracts (PBSC), Performance Based Service Acquisition (PBSA) and related topics. This review will be conducted using various Governmental legislative and regulatory guidance and best commercial practices. The research will include a gathering of survey information from contracting officers, Directors of Information Management offices, Information Technology (IT) technical personnel and TACOM IT contractors. This information will then provide a comparative analysis for recommendations and conclusions. To conclude, this joint applied project will include creating and posting performance measurement guidance for the TACOM Community website to provide all contracting personnel with the means to develop performance measures for IT performance based service contracts.
SURVEILLANCE OF INFORMATION TECHNOLOGY (IT) PERFORMANCE BASED SERVICE ACQUISITIONS (PBSAS)

Suzanne McGregor, Civilian, United States Army
Elvia Jaggers, Civilian, United States Army

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE IN CONTRACT MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
December 2005

Authors:
Suzanne McGregor
Elvia Jaggers

Approved by:
Marshall R. Engelbeck, Lead Advisor
Rene Rendon, Support Advisor
Robert N. Beck, Dean
Graduate School of Business and Public Policy
THIS PAGE INTENTIONALLY LEFT BLANK
SURVEILLANCE OF INFORMATION TECHNOLOGY
PERFORMANCE-BASED SERVICE ACQUISITIONS (PBSAS)

ABSTRACT

There has been an increased emphasis on utilization Performance Based Services Acquisitions (PBSA) as a means for organizations to cut costs and to become more efficient. According to GAO report 05-274 nearly half of an organization’s yearly budget is being spent on services. Consequently, DoD must ensure that contractors performing these services are being effectively monitored. This will ensure that required services are being performed according to contract terms. Based on this GAO report, DoD is not adequately performing contractor surveillance. (GAO Report No. 05-274, 2005)

This can be accomplished by the establishing a PBSA team from the onset of the acquisition and ensuring that the technical team members also perform the contractor surveillance. To join the team, each person must have received training on PBSA as a condition of membership. Furthermore, team members should have access to lesson learned from previous and/or current PBSA experiences. (Seven Steps to PBSA, 2005)

In addition, the PBSA should ensure that FAR 1.102 guiding principles are used when developing as well as monitoring contractor performance. (FAR 1.102)

The purpose of this joint applied project is to examine IT performance based service acquisitions and assess what performance measurements are being used to gauge the contractor’s effectiveness. This research project will provide a literary review of Performance Based Contracts (PBCs), Performance Based Service Contracts (PBSC), Performance Based Service Acquisition (PBSA) and related topics. This review will be conducted using various Governmental legislative and regulatory guidance and best industry practices. The research will look at incentives and remedies use to motivate a contractor to succeed performance expectations. The research will include a gathering of survey information from contracting officers, Directors of Information Management offices, Information Technology (IT) technical personnel and TACOM IT contractors.
This information will then provide a comparative analysis for recommendations and conclusions. The information will then be analyzed to aid in lessons learned processes, guidance, and policy to aid other acquisition personnel with any performance based service acquisitions. To conclude, this joint applied project will include creating and posting performance measurement guidance for the TACOM Community website to provide all contracting personnel with the means to develop performance measures for IT performance based service contracts.
TABLE OF CONTENTS

I. BACKGROUND ..........................................................................................................1
A. INTRODUCTION.....................................................................................................1
B. TERMS AND DEFINITIONS AS DEFINED IN FAR, DFARS, ETC. .....................2
C. RESEARCH OBJECTIVE ......................................................................................3
D. RESEARCH QUESTIONS ......................................................................................3
E. SCOPE (BENEFIT TO TACOM COMMUNITY), LIMITATIONS, AND ASSUMPTIONS .....................................................................................4
F. METHODOLOGY ..................................................................................................4
G. BENEFIT OF RESEARCH .................................................................................5
H. ORGANIZATION OF THESIS .........................................................................5
I. SUMMARY ............................................................................................................6

II. LITERARY REVIEW .................................................................................................7
A. INTRODUCTION.....................................................................................................7
B. ELEMENTS OF PERFORMANCE BASED ACQUISITIONS .................................7
C. GOVERNMENT LEGISLATION ...............................................................................8
   1. Government Performance and Results Act (GPRA) of 1993 .....................8
   2. Clinger Cohen Act (CCA) of 1996.................................................................9
D. OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP) ............................9
E. FEDERAL ACQUISITION REGULATION (FAR) ...............................................11
F. DEFENSE FEDERAL ACQUISITION REGULATIONS (DFARS) ....................12
G. DEFENSE ACQUISITION GUIDEBOOK (DAG) .............................................12
H. DOD DIRECTIVE 5000 SERIES GUIDANCE ...............................................12
   1. DoD Instruction 5000.2.................................................................................13
I. GUIDELINES - SEVEN STEPS TO PERFORMANCE BASED SERVICE ACQUISITION .....................................................................................13
   1. Establish the Team.........................................................................................13
   2. Describe the Problem....................................................................................13
   3. Examine Private-Sector & Public Sector Solutions......................................14
   4. Develop PWS or SOO..................................................................................15
   5. Decide How to Measure & Manage Performance ......................................15
   6. Selecting the Right Contractor ....................................................................16
   7. Manage the Contractor’s Performance ......................................................17
J. GENERAL ACCOUNTABILITY OFFICE (GAO) .............................................17
K. COMMERCIAL BEST PRACTICES .................................................................18
   1. Metrics ..........................................................................................................18
   2. Proper Alignment..........................................................................................19
   3. Customer Need/Contract Specifications.....................................................20
   4. The Quality Approach..................................................................................20
   5. Incentives ......................................................................................................21
   6. Lessons Learned..........................................................................................23
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Recommendations</td>
<td>25</td>
</tr>
<tr>
<td>L. SUMMARY</td>
<td>27</td>
</tr>
<tr>
<td>III. SURVEY AND INTERVIEW RESULTS</td>
<td>29</td>
</tr>
<tr>
<td>A. INTRODUCTION</td>
<td>29</td>
</tr>
<tr>
<td>B. PURPOSE OF SURVEY/INTERVIEWS</td>
<td>29</td>
</tr>
<tr>
<td>C. DESCRIPTION OF THE PROGRAMS</td>
<td>29</td>
</tr>
<tr>
<td>D. SELECTION OF RESPONDENTS</td>
<td>30</td>
</tr>
<tr>
<td>E. SURVEY QUESTIONS</td>
<td>30</td>
</tr>
<tr>
<td>F. RESULTS OF SURVEYS</td>
<td>32</td>
</tr>
<tr>
<td>G. INTERVIEW QUESTIONS AND RESULTS</td>
<td>41</td>
</tr>
<tr>
<td>H. SUMMARY</td>
<td>43</td>
</tr>
<tr>
<td>IV. FINDINGS AND RESULTS (LITERARY REVIEW AND SURVEY/INTERVIEW RESULTS)</td>
<td>45</td>
</tr>
<tr>
<td>A. INTRODUCTION</td>
<td>45</td>
</tr>
<tr>
<td>B. COMPARISON OF FINDINGS TO EXPECTED RESULTS</td>
<td>45</td>
</tr>
<tr>
<td>1. Establishing the PBSA Team</td>
<td>45</td>
</tr>
<tr>
<td>2. Defining the Requirement</td>
<td>46</td>
</tr>
<tr>
<td>3. Conducting Market Research</td>
<td>47</td>
</tr>
<tr>
<td>4. Solicitation Development - SOW, Metrics, Incentives, etc.</td>
<td>48</td>
</tr>
<tr>
<td>5. Awarding the Contract</td>
<td>53</td>
</tr>
<tr>
<td>6. Contractor Surveillance</td>
<td>54</td>
</tr>
<tr>
<td>C. SUMMARY</td>
<td>56</td>
</tr>
<tr>
<td>V. CONCLUSIONS AND RECOMMENDATIONS</td>
<td>57</td>
</tr>
<tr>
<td>A. INTRODUCTION</td>
<td>57</td>
</tr>
<tr>
<td>B. CONCLUSIONS</td>
<td>58</td>
</tr>
<tr>
<td>1. Establishing the PBSA Team</td>
<td>60</td>
</tr>
<tr>
<td>2. Defining the Requirement</td>
<td>61</td>
</tr>
<tr>
<td>3. Conducting Market Research</td>
<td>61</td>
</tr>
<tr>
<td>4. Solicitation Development – SOW, Metrics, Incentives, etc.</td>
<td>62</td>
</tr>
<tr>
<td>5. Measurable Performance Standards or Metrics</td>
<td>62</td>
</tr>
<tr>
<td>6. Incentives and Remedies</td>
<td>63</td>
</tr>
<tr>
<td>7. Awarding the Contract</td>
<td>64</td>
</tr>
<tr>
<td>8. Contractor Surveillance</td>
<td>64</td>
</tr>
<tr>
<td>C. RECOMMENDATIONS</td>
<td>65</td>
</tr>
<tr>
<td>1. Team Consistency</td>
<td>65</td>
</tr>
<tr>
<td>2. Conduct Adequate Market Research</td>
<td>66</td>
</tr>
<tr>
<td>3. Knowledge of Monitoring Tools</td>
<td>67</td>
</tr>
<tr>
<td>4. Requiring Training on PBSAs</td>
<td>67</td>
</tr>
<tr>
<td>D. AREAS FOR FURTHER RESEARCH</td>
<td>68</td>
</tr>
<tr>
<td>E. SUMMARY/CONCLUSION</td>
<td>69</td>
</tr>
<tr>
<td>LIST OF REFERENCES</td>
<td>71</td>
</tr>
<tr>
<td>INITIAL DISTRIBUTION LIST</td>
<td>75</td>
</tr>
</tbody>
</table>
ACKNOWLEDGMENTS

We would like to thank our professors, Marshall Engelbeck and Rene Rendon. Without their help in defining our topic, as well as keeping us focused on the topic; this project would not have been completed. Additionally, we would like to thank everyone who provided input into this project; without you it would not have gotten off the ground. Furthermore, we would like to thank our families for their love and support throughout this entire process. Without all of you together, this project would not have been completed.
I. BACKGROUND

A. INTRODUCTION

The Department of Defense (DoD) is starting to realize that surveillance of service acquisitions needs to improve significantly. Even though DoD has taken steps to improve general oversight and management of service contracts through the National Defense Authorization Act for Fiscal Year 2002, these efforts have done very little to improve service contract surveillance (Government Accountability Office (GAO) Report 05-274, 2005).

Purchasing services from the private sector is not a new concept. Outsourcing, which is now referred to as “Competitive Sourcing”, was originally directed in the Office of Management and Budget (OMB) Circular No. A-76 issued in 1966. However, it is interesting to note that the commercial market still refers to this type of competition as “outsourcing.” According to this circular, the Government will not “start or carry on any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source.” Information Technology (IT) services have been long considered a function which private industry can perform. Consequently, IT services have become a target for A-76 studies a means for federal agencies procure services more economically thereby reducing their operational costs. By using competitive sourcing processes to obtain IT services, Government agencies are allowed to concentrate on their core mission as well reducing their overall operational costs. Even though the requirement to outsource services, like IT services, has been a requirement since 1966, it has just been in the last few years that purchases of services have seen a significant increase. Agencies are being pushed to use performance-based service contracting (PBSCs) methods, to the maximum extent possible, when developing service contracts (Office of Federal Procurement Policy (OFPP) Letter 91-2, Service Contracting and OFPP report, 2003). The use of service based contracting methods is a whole new arena for DOD acquisition personnel. As a result of these changes, surveillance of service contracts has become more important to ensure that the
Government agencies receive services they require in a timely and quality manner (GAO Report 05-0274, 2005). These developments will be discussed as part of this research.

The purpose of this Joint Applied Project professional report is to analyze IT performance based service acquisitions within the U.S. Army Tank Automotive and Armaments Command (TACOM) and to evaluate what performance measurements are being used to gauge the contractor’s effectiveness against the performance measures stated in the contract. Additionally, this report will also address incentives, as well as penalties, used to incentivize the contractor to provide the level of service envisioned by the Government. In conclusion, the report will analyze how development of performance measures, incentives, and penalties affect the ability of the surveillance team to adequately administer the contract.

The methodology of this research will include several steps. Literary review will discuss topics such as Performance Based Contracts (PBCs), Performance Based Service Contracts (PBSCs), Performance Based Service Acquisitions (PBSAs), Quality Assurance Surveillance Plans (QASPs), Performance Work Statements (PWSs), and Statement of Objectives (SOOs), incentives, performance measurements and metrics. This literary review will be conducted to include government and commercial sources. Surveys and interviews will be performed and include participants from both government and private industry. The results of the surveys and interviews will be included in Chapter III. The results of the surveys and interviews will be analyzed and a comparison of these results, with the information from Chapter II, Literary Review, will be included in Chapter IV. Recommendations and areas of further research will be included in this research project in Chapter V. The above information will provide the PBSA Team with lessons learned and commercial best practices necessary to ensure successful contract surveillance.

B. TERMS AND DEFINITIONS AS DEFINED IN FAR, DFARS, ETC.

Performance-based contracting, as defined in the Federal Acquisition Regulation (FAR), is a means to structure all aspects of an acquisition around the purpose of the work to be performed with the contract requirements to be set forth in clear,
specific, and objective terms with measurable outcomes (FAR 2.101). This topic will be discussed further in Chapter II Literary Review.

**Performance-Based Service Acquisition (PBSA)** is defined as structuring all aspects of an acquisition around the work to be performed with the contract requirements set forth in clear, specific, and objective terms with measurable outcomes rather than direct performance processes. Simply stated, “it is a method for acquiring what is required and places the responsibility for how it is accomplished with the contractor.”(Guidebook for Performance-Based Service Acquisition (PBSA) in the DoD, 2001) The use of the word "acquisition" rather than "contracting" reflects the broader scope (from mission planning to contract performance management) and broader community (including program offices) that are a necessary part of the process (Guidebook for PBSA in the DoD, 2001).

C. **RESEARCH OBJECTIVE**

The objective of this research is to gauge the effectiveness of existing IT PBSAs and use the lessons learned to develop and post performance measurement guidance on the TACOM Community website to provide all contracting personnel with a means to develop performance measures for IT PBSAs.

D. **RESEARCH QUESTIONS**

The research questions to be answered in this Joint Applied Project are:

1. To what extent are performance-based measures being used to manage TACOM IT PBSAs?

2. How clear and applicable are PBSA contracting policies and procedures, e.g., statements of work (SOWs), performance work statements (PWS), and statements of objectives (SOOs)?

3. What are the incentives and penalties affecting PBSAs?

4. What are ways to improve U.S. Army, TACOM-RI, PBSA including methods promulgating web-based guidance to practitioners?
E. SCOPE (BENEFIT TO TACOM COMMUNITY), LIMITATIONS, AND ASSUMPTIONS

This research project will provide the TACOM community with recommendations and guidance related to developing successful performance measurements to use with IT Performance Based Service Acquisitions. In addition, this site will include lessons learned and frequently asked questions regarding the use of incentives (positive and negative); it will provide websites, Government documents, and commercial sources available to assist contracting personnel in monitoring and accessing contractor performance; and it will provide samples of performance measures and incentives that have been successfully used in past and current contracts.

This project is limited to review of IT PBSAs within the TACOM community that have successfully used competitive sourcing techniques or are follow-on to a competitive sourcing PBSA.

Assumptions being made are that current IT PBSAs lack effective performance measurements, metrics, and incentives to effectively monitor of contract performance.

F. METHODOLOGY

The methodology used for the purposes of this thesis consists of literary reviews of Performance Base Contracts (PBCs), Performance Based Service Contracts (PBSCs), Performance Based Service Acquisitions (PBSAs), Information Technology (IT) PBSAs, and surveillance of IT PBSAs to determine if adequate surveillance is currently being accomplished on these types of contracts. The literary review will include Government Legislation, DoD Regulations, DoD policy and guidance, interim policy, and regulations; best practices; and best commercial practices regarding service contracts and/or acquisitions.

The report will also will attempt to obtain additional insight relating to management of PBSAs from personnel within the TACOM community. These individuals are responsible for managing and monitoring IT PBSAs. This will be accomplished with completion of surveys or conducting interviews with Government and Contractor Project Managers, Directors of Information Management (DOIMs), Procuring
Contracting Officers, Government IT technical personnel, TACOM contractors, and other 1102 series acquisition personnel. After receipt of the questionnaires and completion of the interviews, this information will be compiled and analyzed to provide information on what is actually happening in the TACOM community regarding surveillance of IT PBSAs. Based on the findings from the surveys received, this report will cover any interviews conducted to obtain further information.

The report will conclude with a comparison and contrast on how surveillance should be performed with what is actually being conducted. Finally, a template will be developed to provide guidance on the development of metrics and incentives to assist the PBSA Team in creation of PWSs, SOOs, QASPs, and the types of incentives necessary to incentivize contractor performance.

G. BENEFIT OF RESEARCH

Anticipated benefits of our research will include creating lessons learned and posting performance measurement guidance for the TACOM community, which will provide acquisition personnel with the means to develop performance measures to ensure proper surveillance of IT PBSA contracts.

H. ORGANIZATION OF THESIS

This report is organized into five chapters. Chapter I provided an overview of the research project, objectives, and methodology. Chapter II includes a literary review to include topics such as PBC, PBSCs, and PBSAs. Along with these topics, Chapter II will include definitions for the acquisition techniques and for related tasks that are required with these types of acquisitions. The literary review will be conducted using Government Legislation, regulations, DoD guidance, and commercial best practices. Chapter III will provide a real-world comparison based on surveys and interviews conducted from this research project. Additionally, Chapter III will also include a list of the questions contained in the survey and interviews, and the selection of the respondents and interviewees. Chapter IV will compare and contrast results of the literary review with the results of the questionnaire/interviews. Chapter IV will summarize the results of the analysis obtained in Chapter III. Chapter V provides overall conclusions, recommendations, and recommended areas for further research.
I. SUMMARY

In conclusion, Chapter I of this research project states the objective of this project, which is to determine if IT PBSAs are being effectively measured and, if so, what lessons have been learned. Included in this chapter are the related terms and definitions relating to PBSAs. These terms and others are further discussed in Chapter II – Literary review.
II. LITERARY REVIEW

A. INTRODUCTION

The literary that will be discussed in this chapter will include topics such as Performance Based Contracts (PBCs), Performance Based Service Contracts (PBSCs), and Performance Based Service Acquisitions (PBSAs). This will involve distinguishing between the PBCs, PBSCs, and PBSAs. The research will also include components and objectives of PBSA; therefore, additional terms will be discussed. The literary review will be conducted using Government legislation and regulations, DoD guidance, and commercial best practices. In conducting this process, the literary review will discuss both Government regulatory guidance and industry best practices.

B. ELEMENTS OF PERFORMANCE BASED ACQUISITIONS

The DoD PBSA Guidebook states that in order to be considered performance-based, an acquisition should contain the following elements:

A performance work statement (PWS) describes the acquisition requirement in terms of measurable outcomes rather than telling a contractor how to perform the supplies and/or services required.

Measurable performance standards or metrics are used to determine whether desired outcomes have been met. Consequently, the standards or metrics help to define what will be considered acceptable performance under any resulting contract.

Incentives and Remedies provide a means to address acceptable and unacceptable contractor performance. Not all acquisitions contain incentives but the team should be encouraged to include them whenever possible. Incentives are included to motivate the contractor to exceed performance standards. Additionally, this guidebook states “Remedies and incentives complement each other.”

A performance Assessment plan describes how contractor performance is monitored and assessed. This plan can be written by the Government as part of the PWS or can be a requirement of the solicitation. Therefore, the contractor can include it as part of their proposal. If the Government writes the Performance Assessment Plan, it is called
a Quality Assurance Surveillance Plan (QASP) while if contractor provides the Performance Acceptance Plan as part of their proposal, it is known as Quality Assurance Plan (QAP) (PBSA in the DoD, December 2000).

Although the terms PBC, PBSC, and PBSA may mean different contracting methods for some people, for the purposes of this research project, the terms PBC, PBSC, and PBSA will be used interchangeably. Whether referred to as Performance-Based Service Contracting (PBSC), Performance-Based Service Acquisition (PBSA), Performance-Based Acquisition (PBA), or Performance-Based Contracting (PBC), the objective of improved performance remains the same. No longer the exception to traditional contracting, these performance-based approaches simply make good business sense (KnowNet, 2005).

The following terms and definitions will be used during the discussion of contractor surveillance:

**Acceptable Quality Level (AQL)** is the variance from a performance standard that a contractor is allowed, before the Government rejects its services. Generally speaking, a contractor will be given an opportunity to correct non-conforming services if it can be accomplished within the required delivery schedule (KnowNet, 2005).

The **Quality Assurance Evaluator (QAE)** is a technical or subject matter expert that is qualified to perform the quality assurance functions required under the PBSA (KnowNet, 2005).

A **Contracting Officer's Representative (COR)** is a government employee whom is appointed in writing and delegated by the Contracting Officer to perform specific contract-related decisions. They can also be referred to as Contracting Officer's Technical Representative (COTR) (KnowNet, 2005).

**GOVERNMENT LEGISLATION**

1. Government Performance and Results Act (GPRA) of 1993

The rationale of GPRA was to make agencies accountable for program performance. GPRA was passed in response to concerns regarding Federal waste and inefficiencies. Like PBCs, agencies are required to establish and manage “mission-
related performance goals and objectives” (KnowNet, 2005). In essence, this act has laid the groundwork for acquisition teams to work towards result driven acquisitions instead of telling the contractor how to perform the requirement. Consequently, PBSAs can help to support the goals required by GPRA, as well as to achieve the agency’s mission. The PBSA team can accomplish this by clearly describing the acquisition as it relates to its mission, thereby setting the contractor’s goals to be in sync with that of the organization. (KnowNet, 2005)

2. Clinger Cohen Act (CCA) of 1996

The CCA states that Government IT organizations should operate like a business; therefore, these organizations must look for ways to streamline their processes and to run more efficiently. This act states the “acquisition technology planning and management” must be treated as a "capital investment." Therefore, organizations cannot and should not acquire hardware and software systems without first looking at all the facets of the acquisition and make a sound business decision before pursuing any acquisition.

Just like PBSA and the GPRA, the CCA requires the IT organization to “establish goals for improving efficiencies and effectiveness” for day-to-day operations. These organizations must also “ensure the established performance measurement” can produce the desired outcomes and are aligned with the organization’s mission.

D. OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP)

The OFPP recognized the need to provide guidance to the acquisition workforce regarding PBSAs. Accordingly, the OFPP put together an interagency working group in April 2002 in order to evaluate and provide acquisition personnel with a better understanding of PBSAs. This team reviewed several internal documents which included OFPP “Guide to Best Practice for Performance-Based Service Contracts”, 1998, and OFPP Pamphlet No. 4, “A Guide to Writing and Administering Performance Statement of Work for Service Contracts”, 1980. In addition, the team reviewed a report prepared by Dr. Lawrence Martin, Pricewaterhouse Coopers Endowment for the Business of Government title “Making Performance Based Contract Perform: What the Federal Government Can Learn from State and Local Governments”, which will be discussed later in this chapter. The task force also reviewed OFPP’s “Solicitation/Contract Task
Order Review Checklist, dated August 1997, and the latest revision of “The Steps to Performance Based Service Acquisition Guide”.

Based on the results of this working group, a report was issued titled, “Performance-Based Acquisition Contracting for the Future”, dated July 2003. The report recommended that FAR Part 2 be revised to include definitions for performance work statement (PWS), quality surveillance plan (QAP), statement of objectives (SOOs), etc. The PWS would be used to identify the technical, functional and performance characteristics of an agency requirement. A QASP would be redefined to mean a plan for assessing the contractor’s performance, which would ensure the Government’s performance objectives were met and were in compliance with the terms and conditions of the contract.

As already defined, a SOO is alternative to the PWS. However, the team recommended that the SOO should provide a summary of key agency goals and/or outcomes. This would allow the contractor to draft, for government review, a PWS to be incorporated into any resulting acquisition.

Finally, the SOW, much like the PWS, would be defined as a statement that describes the Government’s requirements in a clear and concise manner.

The Interagency Working Group, chartered by the OFPP, also recommended that the term Performance Based Service Acquisition (PBSA) be used “to provide common terminology throughout the Government”. In addition, this committee recommended that FAR 37.601 (a) be changed to read as follows: “The principal objective of performance-based service acquisition (PBSAs) is to express government needs in terms of required performance objectives, rather than the method of performance, to encourage industry-driven, competitive solutions.” (OFPP Interagency Working Group, 2004)

As result of this task force, OFPP issued memorandum Subject: “Increasing the Use of Performance Based Service Acquisitions”, dated September 4, 2004, and rescinded OFPP’s “1998 Guide to Best Practices for Performance-Based Service contracting”. This memorandum stated that agencies should use the “Seven Steps to
E. FEDERAL ACQUISITION REGULATION (FAR)

The FAR provides a definition for PBC; however, it fails to properly define the differences between PBC and PBSA, as well as to include definitions of other PBSA terms.

As stated in Chapter One, FAR Part 2 defines “Performance-based contracting” as the means of 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 how the work is to be performed or by broad and imprecise statements of work. (FAR 2.101)

Additionally, FAR 37.101, Definitions, defines a service contract as “a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply.” (FAR 37.101)

The policy at FAR 37.102 states that Performance Based contracts are the preferred method of contracting for services. Moreover, these contracts should be awarded under a firm fixed price whenever feasible before another type of contract is used. Consequently, there seems to be a need to provide and/or clarify what the difference is between PBCs and PBSAs. Whereas a PBC can be used to acquire logistical support to include both hardware and services, such as provided in a contract for total contractor logistical support or supply chain management, PBSAs are needed to provide services such as base operation support, guard services, environmental remediation actions, janitorial, and IT support services.

Additionally, for any PBSA to be successful the team must adhere to FAR guidance which states the team must be established from “...beginning with the customer and ending with the contractor of the product or service. By identifying the team members in this manner, teamwork, unity of purpose, and open communication among
the members of the Team in sharing the vision and achieving the goal of the System are encouraged. Individual team members will participate in the acquisition process at the appropriate time.” (FAR 1.102-3)

F. DEFENSE FEDERAL ACQUISITION REGULATIONS (DFARS)

A review of the DFARs did not provide definitions for performance based contracts nor did it provide significant information to assist the team with the formulation and surveillance of any service acquisitions.

Surveillance is required by DFARS for all PBSAs; however, DFARS does not specify how surveillance will be performed. Depending on the contract, organization surveillance ranges from formal written assessments, which are conducted monthly, quarterly, semi-annually, or annually, to random inspection of work orders, tickets, etc.

G. DEFENSE ACQUISITION GUIDEBOOK (DAG)

The Defense Acquisition Guidebook (DAG) was created to provide the acquisition workforce with guidance regarding the DoD Instruction 5000.1 and 5000.2. The DAG contains eleven (11) chapters; chapter 2 contains information regarding acquisition program goals. Additionally, chapter seven (7) contains information which informs the team of the statutory and regulatory requirements for acquiring IT. This chapter also provides information regarding the Clinger-Cohen Act, and it relates to the IT acquisitions. Consequently, this guidebook can provide the team and the acquisition personnel with reference guidance to enable them to develop their acquisition strategy (DAG, 2004).

H. DOD DIRECTIVE 5000 SERIES GUIDANCE

While the DoD Directive 5000 does not specifically provide information on performance based service contracts, it does provide the team with the conceptual framework for development of the acquisition. This framework indicates that, as with any acquisition, the team should be comprised of technical personnel, acquisition personnel and contractor personnel, depending on the acquisition.
The PBSA team should be set up from the beginning and all team members should be part of the market research, acquisition strategy and remain with the team throughout the life of the contract.

1. **DoD Instruction 5000.2**

A review of the DoD Directive 5000.2 indicates that Integrated Product Teams (IPTs) shall be used to communicate with the stakeholders throughout the acquisition process. It further states that the Program Manager has the ultimate responsibility of coordinating these efforts (DoDI 5000.2, 2004).

Additionally, this directive also states that the Performance Based Acquisitions (PBAs) shall be used to the maximum extent possible. The intent is “To maximize competition, innovation, and interoperability, and to enable greater flexibility in capitalizing on commercial technologies to reduce costs, acquisition managers shall consider and use performance-based strategies for acquiring and sustaining products and services whenever feasible.” Therefore, the acquisition requirements “shall be stated in performance terms.” Thus, it encourages the team to constantly seek to the use of performance based strategies whenever possible (DoDI 5000.2, 2004 Enclosure 1).

I. **GUIDELINES - SEVEN STEPS TO PERFORMANCE BASED SERVICE ACQUISITION**

This web-based guide describes performance based service acquisition using seven steps. The seven steps are described below:

1. **Establish the Team**

An Integrated or Performance Based Service Acquisition (PBSA) Team must be established. This team should assist in the acquisition planning, the solicitation development, evaluation, and award phase of the acquisition. After contract award, the PBSA team will be closely involved in the surveillance of the resulting contractor’s performance.

2. **Describe the Problem**

This step requires a description of the problem that needs to be solved. GPRA plays a part in this step as it requires the agency to establish and “manage” to mission-
related performance goals and objectives. Additionally, the team can describe the problem in terms of a PWS or a SOO.

3. **Examine Private-Sector & Public Sector Solutions**

Under this step, the team should examine both government and private sector solutions. This is otherwise known as Market Research. Market research is a good source for finding the appropriate contract type to fit a specific situation. It is up to the PBSC team to make a good business decision and utilize negotiations with the contractor to determine the right contract type.

In order to make a “good” business decision, the PBSC team must be clear of the pros and cons associated with each type of contract and what type of incentives and disincentives they provide.

A fixed price contract requires the contractor to be responsible for all costs, whether the contractor realizes a profit or loss under the contract is determined by his performance.

A fixed price incentive contract allows for the final contract price and profit to be calculated based on a formula stated in the contract that relates the final negotiated costs to the target cost.

A fixed price contract with award fee is used when contract performance cannot be measured objectively. This is a way to motivate the contractor when other incentives are not appropriate.

Cost-reimbursement incentive contracts are used when fixed-price contracts are not appropriate because there is uncertainty regarding probable costs. These types of contracts can be cost plus incentive fee or cost plus award fee.

A cost-plus fixed fee contract provides the contractor with minimal responsibility to control costs. The contractor is reimbursed for all allowable and allocable costs and their profit (fee) is negotiated and fixed.

The current regulatory guidance provides a preference to utilize firm fixed price contracts for IT PBSAs. In the past, contracts that provide for support services have been
awarded as cost reimbursement type contracts, and the contractor community is very reluctant to change from reimbursement contracts to firm fixed price contracts.

The argument for firm fixed price contracts for IT PBSAs is these types of contracts state desired outcomes and identifies how performance will be measured. In a contract where performance is specified, but price is constrained, it is possible that performance might exceed expectations.

Please note the contract does not have to be one of the contract types listed above; it can be a hybrid contract that contains both fixed price and cost reimbursement performance measures.

4. Develop PWS or SOO

Step 4 discusses the development of a PWS or SOO. While a PWS provides the contractor with desired results and measurable, relevant standards, a SOO provides a prospective contractor with the desired objectives. A contractor then submits a proposal in the form of a PWS for the Government to review. As KnowNet states, “a SOO is an alternative approach to using a PWS.” A SOO may ensure the contractor can meet or exceed the desired contract performance. When drafting a SOO for an IT PBSA, the following objectives can be employed:

- Ensure that customer support is available 24/7
- Ensure that email services are operational 24/7
- This allows for flexibility of the contractor’s workforce to cover emergency and after-hour requirements.

5. Decide How to Measure & Manage Performance

According to this guide, “this step establishes the strategy of managing the contract to achieve planned performance objectives. The OFPP’s “A Guide to Best Practice Performance Based Service Contracting”, dated October 1998, states that a QAP defines what the Government must do to ensure that the contractor performs to the PWS. Moreover, a QAP or QASP is a plan for which the Government QAE measures the contractor’s performance against the standards contained in the PWS. This plan should be clear, concise, and inform the contractor what surveillance methods will be employed
in any resulting contract. The QASP should focus on the critical tasks contained in the PWS, which are measurable and attainable. It tells the contractor how they will be paid for services rendered to ensure the Government receives the services required.

Consequently, the QASP provides the Government with an indication of what resources are needed to properly administer and assess the contractor’s performance. Even so, the contractor should not rely solely on the QASP to tell them how to perform any required services.

In developing the QASP, the Government team should look at the PWS and decide which tasks are critical and worth measuring. It is better to choose fewer metrics which are meaningful and relevant than to select numerous or complex metrics. When selecting the metrics, the team should look at the metrics to ensure they are easy to collect. If not, they may not be achievable and are not worth being selected as a metric. To be achievable means the contractor will not require any assistance from Government personnel to provide the required services. If the contractor requires Government assistance, why assess or include this metric since it requires both parties to achieve the metric. Monitoring the contractor’s performance can be costly, especially if the Government chooses to monitor the contractor for 100% compliance. The question that should be asked before you require 100% compliance is will this actually be required to get the level of performance we need. We think if the “right contractor” is chosen, 100% compliance will not be necessary.

As stated in Step 6 of the 7 steps to Performance Based Service Acquisitions, the “right contractor” must be chosen and the Government should build a working relationship with the contractor in order for both to have a true understanding of the work required under the contract.

Additionally, step 5 includes development of the contractual language, establishment of the contract type, incentives, metrics, etc.

6. Selecting the Right Contractor

Step 6 involves the developing an acquisition strategy, which will assist the team in selecting a contractor who provides the best value for a given service. The best value
contractor may not provide the lowest price, but may offer a better approach to the requirement or may offer a lower risk to the Government due to a higher past performance rating. When evaluating each contractor, the PBSA team must ensure each offeror understands PBSAs and has the experience/knowledge/expertise to perform the services required by the solicitation.

7. Manage the Contractor’s Performance

This step is where “the real work” of the acquisition comes into play. The agency must ensure that the proper resources are allocated to ensure the contractor performs IAW PWS. The Contracting Officer must inform the team of their responsibilities and limitations during this phase to avoid any unauthorized actions. This step, contract performance “is guided far less by law, regulation, and policy than those described in the preceding steps.” Consequently, the team must be aware of the terms and conditions of the contract and the PWS to ensure they are acting within their authority (Seven Steps to PBSA, 2005).

J. GENERAL ACCOUNTABILITY OFFICE (GAO)

The Department of Defense (DoD) has reported that DoD agencies need to improve surveillance on their service contracts. In the GAO report titled, “Contract Management, Opportunities to Improve Surveillance on Department of Defense Service Contracts” (March 2005),” GAO states that the problem with surveillance revolves around improperly trained service personnel, surveillance personnel not being assigned to the service contract by the date of contract award, surveillance personnel not being held accountable for their duties, incomplete documentation of surveillance personnel, and contract surveillance taking a back seat to awarding contracts. Additionally, the GAO report states that these types of contracts lack the sufficient reporting requirements to ensure that services are required and warranted. The report also states that without proper documentation and surveillance, DoD is at risk of being unable to identify or correct poor performance in a timely manner. In conclusion, GAO recommended that DoD require properly trained surveillance personnel be assigned at the onset of the
contract award. In addition, GAO stated that the surveillance personnel must be held accountable regarding their duties and responsibilities for each service contract (GAO Report 05-274, 2005).

GAO also recognized the need for DoD to revise current PBS guidance on the proper use of other agencies’ contracts, to include guidance on conducting surveillance of services that are procured from other agencies. Finally, GAO directed that the Army assign surveillance personnel to conduct surveillance of ongoing Contract Advisory and Assistance Services as a means of ensuring that service contracts are appropriately identified and monitored. This should ensure that the Army is procuring services that are valid and required (GAO Report 05-274, 2005).

With GAO report 02-1049 titled, “Guidance Needed for Using Performance Based Service Contracting”, dated September 2002, GAO has raised the concern that agencies did not have a clear understanding of PBSAs; therefore, agencies were not taking full advantages of these types of contractual instruments. In this report, GAO sited that the Office of Federal Procurement Policy (OFPP) was aware of this problem and was working on developing new guidance on the use of performance-based contracting (GAO Report 02-1049, 2002).

Consequently, this report recommended that OFPP provide a revision to their PBSA guidance to ensure that PBSAs were being used appropriately and that proper government oversight was being used (GAO Report 02-1049, 2002).

K. COMMERCIAL BEST PRACTICES

1. Metrics

In his article, “Performance-Based Service Metrics in IT,” Peter S. Adam states that for proper surveillance of IT PBSCs, metrics are the key (Adam, 2003).

It is critical for performance standards to be directly linked to the desired outcomes. In addition, the performance standards have to be measurable, relevant, controllable, and achievable (Adam, 2003).
In order to be measurable, standards must be quantifiable and objective. In the case of IT PBSAs, the measurements must be subjective, so a customer satisfaction survey may be the best way to measure/assess contract performance (Adam, 2003).

To be achievable, only a few meaningful metrics should be used, and they must be set at acceptable service levels. Five to eight metrics are considered adequate and must be clearly communicated to all stakeholders (Adam, 2003).

Relevant metrics must be limited to only those metrics that are truly important to program objectives. When developing metrics, you must also be sensitive to the cost associated with measuring each objective to ensure the cost associated with measuring the objective does not exceed the value of the measurement. Expensive metrics should be limited to only those requirements that are mission-critical (Adam, 2003).

Assigned metrics must be controllable by the contractor. If there are too many variables associated with the metrics, the contractor may not be responsible for all the variables that affect the metric (Adam, 2003).

2. **Proper Alignment**

Aligning the performance metrics with end user objectives and customer needs can be very difficult. Metrics can be either position based or component based (Adam, 2003).

Proper alignment of metrics can be very difficult as the end-users, contractors, and the government may have different perspectives for the performance of IT contracts (Adam, 2003).

What the end-users want can be expressed as availability, performance, and affordability. Availability may be computer systems available for the customer’s use when and where they are needed. Whereas performance may require computer systems to work as expected without interruptions and slowdowns (Adam, 2003).

Finally, you must determine if the proposed metrics are affordable and how they affect the “complete” cost of the system. When negotiating the contract, the parties
involved must consider trade-offs between price and performance, resulting in a contract that meets the end user’s need at an affordable price (Adam, 2003).

3. Customer Need/Contract Specifications

Alignment of customer needs and contract specifications are a must. To ensure proper alignment, it can be beneficial to have the contractor propose, or at least contribute to, the metrics and the quality assurance plan (QAP). This allows contractors the opportunity to develop their own solutions to the requirements of the acquisition. If the contracting office develops the metrics and QAP on their own, they could be limiting what the contractors are allowed to propose. The QAP must reflect reform-mandated changes in quality control and assurance of contracting practices (Adam, 2003).

With the Government moving away from selecting the lowest cost, technically acceptable proposal, and moving towards selecting proposals based on best value techniques, more emphasis is placed on quality management and past-performance evaluation, which requires totally different incentives (Adam, 2003).

4. The Quality Approach

In accordance with The Air Force Instruction 63-124 (April 1, 1999), when utilizing the quality approach, contracts are tailored to manage risk and costs; best value source selection criteria is used that reduces oversight and ensures that only services requested are received and paid for; relies on customer feedback to validate contract conformance or nonconformance; allows flexibility in oversight to ensure consistency, even under changing circumstances; allows contractors, as part of their quality assurance system, to report and perform on surveillance of services; and confirms surveillance results with oversight provided by the Government Quality Assurance (QA) or a third party audit (Adam, 2003).

The PBSA team must realize that contract award does not mean that performance metrics are set for the life of the contract; they must continually be reviewed and revised. Therefore, the contract must contain procedures for changing metrics and measures as situations arise (Adam, 2003).
5. **Incentives**

Incentives are vital when acquiring PBSAs, as well as other types of contracts. Contract incentives can be monetary or non-monetary, positive or negative. The goal of an incentive is to motivate and encourage the contractor to provide the best quality performance (Adams 2003).

The choice of the type of contract utilized is a non-monetary incentive and, when utilized, can be an incentive in an IT PBSA. A contractor’s performance can be tied to delivery and performance incentives using speed or responsiveness as an indicator of meeting the metric. Incentives can also be based on meeting performance standard targets, not just meeting minimum contract requirements (Adam, 2003).

Extension or reduction of a contract for good or sub-par performance can also be used as an incentive in the contract. If the contractor fails to perform as required, the contract ends at the end of the base period (Adam, 2003).

The contract must clearly state the consequences of the levels of performance in terms such as minimum, maximum, and estimated, and the office responsible for administering the contract must be prepared to provide the appropriate consequences (Adam, 2003).

The incentive structure must be geared to the acquisition, the market place, and the objectives to be achieved; there is no “one-size-fits all” solution (Adam, 2003).

Performance incentives can be negotiated and should recognize the private sector’s most important motivator – profit. The contract should be developed so that the Government, as well as the contractor, can benefit from economies of scale, efficiencies, and new innovations. Utilizing correct incentives and ensuring the customer’s needs are met will minimize risks and ensure effective performance (Adam, 2003).

Cost based incentives are performance incentives that are designed to tie profit or fee to the results achieved by the contractor in relation to cost based targets. An example
for an IT PBSA would be system availability rates. No matter which type of measure you choose, the performance measure must be quantified and within a reasonable range (low-target-high) (Adam, 2003).

Award-Fee contract arrangements use evaluation factors provided in the award-fee plan to subjectively assess a contractor’s performance for a specific evaluation period. Award fee pools are established at the beginning of the evaluation period and contractors are allowed to earn a portion of an award fee pool (or if performance allows, all of the pool) (Adam, 2003).

Award-term contract arrangements provide additional periods of performance in lieu of monetary consideration for quality performance and are a fairly new concept. The contractor’s incentive is tied to their performance and if performance is acceptable then the contractor gains an additional performance period. For performance that is substandard, the performance period can be shortened. These contracts are different from contract options as the award term contracts are based on formal evaluation processes, instead of regulatory procedures as required with priced options. In other words, the Government extending the contract term up to 10 years can be a reward good performance (Adam, 2003).

Schedule Incentives – this type of incentive focuses on the contractor meeting or exceeding the delivery schedule. These incentives can be stated using calendar days or months, meeting or exceeding contract milestones, or meeting urgent contract requirements (Adam, 2003).

A contractor’s past performance rating can affect their ability to continue to perform past the base year and can affect their ability to obtain other government contracts (Adam, 2003).

In the article “Making Performance-Based Contracting (PBC) Perform: What the Federal Government Can Learn from State and Local Governments”, the author, Lawrence Martin, discusses how the Federal Government can learn from State and Local Governments in the way they approach PBCs. The article offers the following lessons learned from experiences in state and local governments and provides recommendations
to the Office of Federal Procurement Policy (OFPP). Five lessons learned and four recommendations were selected from this article and they are explored below (Martin, 2002).

6. Lessons Learned

a. PBC at the state and local government levels defines “performance” as consisting of outputs, quality, outcomes, or any combination thereof (Martin, 2002).

Confusion appears to exist at the federal level in terms of what constitutes “performance” in PBC. “Performance” in state and local government PBCs mean outputs, quality, outcomes, and various combinations. This tripartite conceptualization of performance: (1) provides greater clarity as to the purpose of PBC, (2) gives state and local governments more options in structuring PBCs, and (3) aligns more closely the concept of performance in PBC with the concept of performance contained in the service efforts and accomplishments reporting initiative of the Governmental Accounting Standards Board (Martin, 2002).

b. PBC at the state and local government levels involves varying degrees of being performance based (Martin, 2002).

A goal of PBC is to make less use of design specifications (input and process) and more use of performance specifications (outputs, quality, and outcomes). The experience of state and local governments demonstrates that service contract specifications can be conceptualized on a continuum (inputs → process → outputs → quality → outcomes) from “non-PBC” to “full-PBC”. At the non-PBC end of the continuum are service contracts that make exclusive use of design specifications; at the full-PBC end of the range are service contracts that make exclusive use of outcome performance specifications. Conceptualizing PBC on a continuum allows for an incremental and developmental approach to be taken with certain services and with certain contractors (Martin, 2002).

c. PBC at the state and local government levels challenges the notion that there is one best way to do performance-based contracting (Martin, 2002).
The state of the art in PBC today is insufficiently well developed to make any claims about how best to implement this new form of service contracting. What can be said is that state and local governments utilize a variety of different approaches in the implementation of PBC. The common denominator in these various approaches is the conscious attempt on the part of state and local governments to change the behaviors of the contractors to focus more on performance (Martin, 2002).

d. **PBC at the state and local government levels include share-in-savings contracting, revenue enhancement contracting, and milestone contracting** (Martin, 2002).

The experience of state and local governments clearly demonstrates that share-in-savings contracting, revenue enhancement contracting, and milestone contracting can affect the behavior of contractors to focus more on performance. Thus, these approaches warrant being called PBC. In the case of share-in-savings and revenue enhancement contracting, contractor behavior is changed to focus on accomplishment of certain processes and outputs that lead in turn to the accomplishment of certain desired outcomes (reduced service delivery costs and increased revenues). In the case of milestone contracting, contractor behavior is changed to focus more on performance because output, quality, and outcome performance requirements, as well as incentives and penalties, are automatically built into the contract (Martin, 2002).

e. **The step-up/step-down method is a useful approach to structuring incentives and penalties** (Martin, 2002).

Structuring incentives and penalties to step-up and step-down from the performance standard or acceptable quality level makes it clear to contractors the implications of acceptable performance. Step-up/step-down incentives and penalties tend to keep the contractor focused on the performance standards. Additionally, the contractor also has positive and negative motivations to achieve the performance standards. When incentives and penalties step-up/step-down in similar fashion, and in similar quantities, an appeal is also made to fairness (Martin 2002).
7. **Recommendations**

   a. **Operationally define “performance” to include outputs, quality, outcomes, or any combination thereof** (Martin, 2002).

      An operational definition of “performance” will resolve the current conflicting and contradictory operational definitions of PBC provided by OFPP, which views PBC as contracting for outputs and quality; the DoD, which views PBC as contracting outcomes; and the FAR, which views PBC as outcomes and quality (Martin, 2002). By providing an operational definition of “performance”, this will ensure that Federal PBC takes a comprehensive view of performance to include considerations of outputs, quality, and outcomes (Martin, 2002).

   b. **Recognize that varying degrees of performance based can exist in an acquisition** (Martin, 2002).

      This will recognize PBC as existing on a range from “non-PBC” to “full-PBC” and will allow for an incremental and developmental approach to be taken with some services and with some contractors. The current Federal perspective is, a service contract is either performance-based or not depending on the presence or absence of four essential elements: performance requirements, performance standards or acceptable quality levels, a quality assurance or monitoring plan, and positive and negative incentives, if the service is mission critical or involves a large expenditure of public funds (Martin, 2002).

      The “all or nothing” Federal perspective may result in federal departments and agencies choosing not to attempt a PBC with some services and with some contractors (Martin, 2002).

   c. **Include share-in-savings, revenue enhancement, and milestone contracting as recognized optional forms of PBC** (Martin, 2002).

      This will recognize the validity of existing practices. Share-in-savings, revenue enhancement, and milestone contracting all seek to change the behavior of contractors to focus more on performance (outputs, quality, and outcomes). As such,
they constitute optional forms of PBC and should be so recognized and will help to begin the process of identifying and classifying various approaches to PBC (Martin, 2002).

d. **Promote the use of the step-up/step-down method for structuring incentives and penalties in PBCs** (Martin, 2002).

This recommendation will provide the Federal Government a simple and easy way for structuring incentives and penalties. By structuring incentives and penalties to step-up/step-down from performance standards or acceptable quality levels; it will make it clear to contractors the implementations of acceptable and unacceptable performance. When incentives and penalties are developed in this fashion, an appeal is made to fairness (Martin, 2002).

In the article “A Vision of the Government as a World Class Buyer: Major Procurement Issues for the Coming Decade”, the authors, Professor Jacques S. Gansler and Roger C. Lipitz, discuss the challenges facing the government regarding the effective and efficient procurement of goods and services. A challenge they discuss in this article looks at changing the current acquisition process (Gansler, 2002).

The government must learn to use incentives, instead of regulations as a way to create higher performance from their contractors and to be able to lower overall costs. If the contractors are rewarded for improving their performance and lowering their costs, they will make every effort to make this happen. Incentives provided to the contractors can be in the form of additional business or profit. The government should think in terms of “sharing the benefits” with the contractor to provide an additional incentive for improving performance and lowering costs. In addition, you must have penalties in place in the event the contractor does not improve his performance and/or lower his costs on the contract. The contractor should never be given additional business when they repeatedly do not meet performance or cost measures. In the commercial world, “past performance” weighs heavily in the selection of sources, and this should be used in government procurements as well (Gansler, 2002). Significant improvement in the government’s way of business in determining their needs will require a significant shift from buying goods to buying sophisticated services. When buying sophisticated services,
the procurements must be “performance based”. This requires the government to simply
tell the supplier what is needed instead of thinking of it as buying labor hours at the
lowest rate possible. If the government wants a high quality service, that is what they
must ask for and let the suppliers decide how to many people it will take and what quality
of people will be required to do the job. The government must then learn how to manage
and oversee the contractors. Just because the contract was given to a private firm, does
not remove the government from the responsibility of managing and overseeing the
contract (Gansler, 2002).

This shift will require considerable training for the government
workforce in learning how to buy and manage these sophisticated services and how to
create appropriate incentives to encourage the contractors to improve the quality of their
services and to lower costs (Gansler, 2002).

L. SUMMARY

In conclusion, this chapter provides the literary review of PBC, PBSC, and PBSA. Additionally, the chapter reviewed the elements required in any PBSA. In performing
the literary review, the research project reviewed past and current legislative guidance
and policies on PBC and PBSA, as well as reviewing commercial Best Practices.

Chapter III will include survey and interview questions and their results. Chapter
IV will compare these findings with the expected results gathered during the Literary
Review in Chapter II. Chapter V will provide recommendations, conclusions and areas
for further research.
III. SURVEY AND INTERVIEW RESULTS

A. INTRODUCTION

In order to gauge the effectiveness of existing IT PBSAs and to determine if performance measurements, metrics, and incentives are working effectively in monitoring these contracts, surveys and interviews were conducted.

B. PURPOSE OF SURVEY/INTERVIEWS

The purpose of the survey is to compile cross-comparative data regarding IT PBSAs across Government facilities. A summary of findings will be developed after compilation of the data. This survey is by no means a scientific survey, does not represent a statistical sampling, and the results are not to be determined representative of results across the Department of Army. The intention of this survey was to get a feel of what procurement contracting staff, government technical staff, and contractors are experiencing with their PBSAs and to compare it with the experiences of the authors.

C. DESCRIPTION OF THE PROGRAMS

The program(s) performed by the interviewees and survey personnel included a range of IT services. The contractor personnel who were interviewed and/or surveyed perform IT services for several installations. A sample of the IT services provided a range from Project Management support, help desk services, electronic mail support services, blackberry and/or telephone support, to end user support. Additionally, these individuals also assist the Government’s Most Efficient Organization (MEO) at Sierra Army Depot with their reporting requirements. In essence, they provide an outside audit of the Government contract for IT services.

The Government personnel who were interviewed and/or surveyed provide surveillance and management to include the Army’s vision of a single Director for Information at each site and/or installation. Currently at Rock Island Arsenal, there are at least three Directors for Information Management who provide a portion of the total information services for Rock Island Arsenal.
D. SELECTION OF RESPONDENTS

To ensure all members of the PBSA team were allowed an opportunity to provide input, selected surveys were sent to Government Product Managers, Government IT Technical Staff, Warranted Contracting Officers, Directors of IT Management (DOIMs), TACOM contractors, and other Government procurement staff. Selected interviews were conducted with the President of Vista Corporation, a TACOM contractor, and the Director of IT for Rock Island Arsenal. Ten surveys were distributed and six were completed and returned.

E. SURVEY QUESTIONS

What is your role in IT contract services?

Government Procurement Staff

Government Technical Staff

Contractor

Question 1:

Part A: What type of contract are you currently under for IT Services?

Firm Fixed Price

Cost Plus

Time and Materials

Combination of Any of the Above

Other

Part B: What is your opinion regarding effectiveness of this contract? (Were desired outcomes accomplished?)

Part C: Do you feel this was the appropriate type of contract? Does it meet your anticipated objectives and outcomes?
**Question 2:**

Part A: What performance metrics were contained in the solicitation/contract to monitor performance (cost/schedule/performance metrics)?

Part B: Were you involved in the formulation of these metrics?

**Question 3:**

Part A: How often do you meet (informally or formally) with the Government/Contractor team to discuss performance issues?

- Daily
- Twice Weekly
- Weekly
- Twice Monthly
- Monthly
- Every Other Month
- Quarterly

Part B: Do you feel that these meetings are productive?

Part C: What do you believe is the primary contributing factor to the productivity or non-productivity of the meetings?

Part D: If you had the ability to make one change to the meetings that would yield a better outcome to the meetings, what would that change be?

**Question 4:**

Part A: Are there incentives included in the contract, if so, what are they?

Part B: Do you consider the incentives included in the contract positive or negative and why?

Part C: If incentives are offered, how would you change them to make them more effective?
Question 5:

Part A: Is there a direct correlation between the performance metrics and the desired outcomes?

Part B: Is there a direct connection between the performance metrics and the performance incentives?

Part C: Why would you add, change, or not change any of the current performance metrics?

Question 6:

Are the policies and procedures applicable and clear for development of IT PBSAs SOW, PWS, and SOOs?

Question 7:

In your opinion, what is the primary and most important change that needs to be implemented to improve the Army’s IT PBSAs?

A copy of the survey form is at Exhibit 1.

F. RESULTS OF SURVEYS

The survey results are as follows:

What is your role in IT contract services?

Government Procurement Staff

Government Technical Staff

Contractor

One respondent was a member of the government procurement staff, four were government members of the technical staff, and one respondent was a TACOM contractor.

Question 1:

Part A: What type of contract are you currently under for IT Services?
Firm Fixed Price
Cost Plus
Time and Materials
Combination of Any of the Above
Other

Of the six respondents, the TACOM contractor and two members of the government technical staff stated their IT service contracts were firm fixed price. The other three respondents, all members of the government technical staff, stated their IT service contracts were a combination of firm fixed price, cost plus, and/or time and materials.

**Part B: What is your opinion regarding effectiveness of this contract? (Were desired outcomes accomplished?)**

When asked their opinion regarding the effectiveness of their firm fixed price contracts, the TACOM contractor and two government technical staff members agreed that firm fixed price contracts were not the best solution or the most effective way to manage an IT service contract, especially with regards to contractor performance.

The remaining three respondents, all government technical staff members working with combination contracts, felt these contract types were very effective. One respondent stated regardless of the type of contract, the management of cost, schedule, and performance is influenced by the education, training, and experience of the project managers, Contracting Officer’s Representatives (CORs), and performance certifiers. This respondent stated from her experience, this is typically the largest influencing factor related to the effectiveness of the contract, not the contract type.

**Part C: Do you feel this was the appropriate type of contract? Does it meet you anticipated objectives and outcomes?**

When asked if they felt the contract type was appropriate, the respondents, the TACOM contractor and two members of the government technical staff who had used firm fixed price contracts, felt this type of contract did not provide an incentive for
contractors to continue providing better solutions to problems and they also did not allow for incorporating changes in technology and to anticipate future workload requirements. In addition, the respondents felt firm fixed price contracts were a challenge to administer and to perform as well.

The remaining three members of the government technical staff felt their combination contracts allowed them flexibility to work with the contractor in the ever-changing IT arena.

**Question 2:**

**Part A: What performance metrics were contained in the solicitation/contract to monitor performance (cost/schedule/performance metrics)?**

The respondents were asked to describe the performance metrics contained in their solicitation/contract to monitor performance.

None of the respondents actually specified the performance metrics that were included in their solicitation/contract. Five of the respondents, the TACOM contractor, three members of the government technical staff, and one government procurement staff member stated performance metrics contained in their contracts primarily focused on schedule and performance; these included successful implementation of applications, reporting requirements, a detailed performance requirements summary, and remedies for sub-standard performance. The remaining respondent, a member of the government technical staff, stated their contract contained varied metrics and QASP requirements which ranged from successful implementation of applications to reporting requirements.

**Part B: Were you involved in the formulation of these metrics?**

In order to determine who is being included in the development/formulation of the metrics placed in TACOM IT PBSAs, the respondents were asked if they were involved in the formulation of the metrics in their contracts. Two individuals from the government technical staff and the one individual who is part of the government procurement staff stated they were involved in the formulation of the contract metrics. The other two
individuals who are part of the government technical staff and the TACOM contractor stated they were not part of the formulation of the metrics for their contract.

Question 3:

Part A: How often do you meet (informally or formally) with the Government and/or the Contractor team to discuss performance issues?

Daily
Twice Weekly
Weekly
Twice Monthly
Monthly
Every Other Month
Quarterly

In an effort to determine the level of surveillance being done on IT PBSAs, respondents were asked how often the government/contractor team meets to discuss performance issues.

Two respondents, both government technical staff members, stated their teams have daily meetings; a procurement staff member stated their team meets twice a week; one government technical staff member stated their team meets weekly, monthly, and quarterly; another government technical staff member stated their team meets monthly; and finally, the TACOM contractor stated he meets with the government team every other month.

Part B: Do you feel that these meetings are productive?

When asked if their meetings were productive, the TACOM contractor, the government procurement staff member, and three government technical staff members stated their meetings were productive, while one government technical staff member stated their meetings were not productive.
Part C: What do you believe is the primary contributing factor to the productivity or non-productivity of the meetings?

In order to determine why meetings were or were not productive, the respondents were asked what they believed was the primary contributing factor that made the meeting productive or nonproductive.

One member of the government technical staff stated having an agenda, a structured format for the meeting, and clear/concise expectations made their meeting productive. In addition, this respondent feels communication must be simple and frank and that talking around issues is ineffective in getting them resolved.

Another government technical staff member feels open discussions with the contractor and understanding their concerns will help the team stop a problem before it happens. Limiting discussions to critical issues, repetitive performance problems, and high cost areas are contributing factors stated by one government procurement staff member and a government technical staff member would help make meetings more productive.

A contractor who is unwilling or unable to perform is stated as a contributing factor by one of the government technical staff members. Finally, the respondent, who is a TACOM contractor, feels meetings are necessary due to a difference in understanding of issues by the government and industry. He feels these meetings foster an understanding of the contractor’s performance and help build trust between the customer and the contractor.

Part D: If you had the ability to make one change to the meetings that would yield a better outcome to the meetings, what would that change be?

When asked if you had the ability to make one change in the meetings in order to yield a better outcome, what would that suggestion be? The following responses were received.

Provide a clear and concise expectation with clear measurable outcomes was the suggestion from one of the government technical staff members.
Another government technical staff member stated he would limit the acceptable range of allowable excuses for failed performance to reasonable issues only. If either party failed due to their lack of appropriate application of resources, accept the deficiency and move on.

All parties should be less adversarial states another government technical staff member.

The government procurement staff member feels limiting discussions to the most critical issues would increase productivity during their meetings.

During the meetings, suggest an improvement to the performance/reports so they can be brought to the next meeting was a suggestion by the TACOM contractor.

**Question 4:**

**Part A: Are there incentives included in the contract, if so, what are they?**

**Part B: Do you consider the incentives included in the contract positive or negative and why?**

To determine what incentives are being used in TACOM contracts, each respondent was asked to describe what incentives were used in their contracts and if the incentives were positive or negative.

Two respondents, one a government technical staff member and the other a TACOM contractor, stated there were no incentives in their contract. Though, the government technical staff member went on to say the government, in most cases, isn’t comfortable or familiar with trying to include financial incentives, at least from his experience. Other incentives are typically not used or encouraged – it takes consistent management of the contract to ensure performance and validation in order to approve incentives, which isn’t always done or available through the government team.

Another respondent, a government technical staff member, stated there were no positive incentives in their contract, but there were a significant amount of penalties for non-performance of the contract.
Two respondents, a government procurement staff member and a government technical staff member, stated the incentive included in their contracts tied extension of the life of the contract with exceptional performance.

The final respondent, a government technical staff member, stated incentives in their contract are tied to performance and they are positive incentives as the contractor is compensated for completed work within the quality standards. If the contractor’s work is not in accordance with the standards, then a deduction can be made.

**Part C: If incentives are offered, how would you change them to make them more effective?**

When offered the chance to change the contract incentives to make them more effective, only two government technical staff members provided responses. One of the government technical staff members stated he would like to see some of the government’s financial regulations and the way the government handles their money changed. The other technical staff member stated he would make sure the government and the contractor fully understand the linkage between performance, compensation, deductions, and how they will be applied during the course of the contract.

**Question 5:**

**Part A: Is there a direct correlation between the performance metrics and the desired outcomes?**

All respondents felt there is a direct correlation between the performance metrics, the desired outcomes, and how desired outcomes are measured against the contract provisions. The TACOM contractor stated the performance metrics in their current contract were very ineffective in determining the performance of the contract. Without the valuable input of the industry representative, the chance of accurate measurements has been skewed.
Part B: Is there a direct connection between the performance metrics and the performance incentives?

When asked if there is a direct connection between the performance metrics and the performance incentives, the government procurement staff member and two government technical staff members said yes there was; the TACOM contractor and two government technical staff members stated no there was not; and one government technical staff member did not answer this question.

Part C: Why would you add, change, or not change any of the current performance metrics?

The respondents were asked why would you change, not change, or add performance metrics to the current contract.

The government procurement staff member and two government technical staff members did not answer this question; one government technical staff member stated every contract has to be considered individually to determine what needs to be changed and adapted based on lessons learned; and the TACOM contractor stated current metrics should be changed to reflect a positive direction and to provide cost effectiveness and performance solutions. Metrics should be present as a dashboard for improvement and not a chopping block if they are not met.

Question 6:

Are the policies and procedures applicable and clear for development of IT PBSAs SOW, PWS, and SOOs?

This question asks the respondents if current policy and procedures are applicable and clear for development of IT PBSAs, SOWs, PWS, and SOOs. One government technical representative answered the policies and procedures were not applicable and clear causing the government technical staff to rely on the contracting officers for assistance.

Another government technical representative answered no, but provided no reasons for his answer.
The positive responses came from the government procurement staff member, two government technical staff members, and the TACOM contractor. Only the TACOM contractor provided comments.

The TACOM contractor stated policies and procedures are applicable, but remain vague in the development of IT PBSAs, SOWs, PWS, and SOOs. He feels this is good as each area can define their own needs and requirements for performance of IT services and support. The value of having an outside industry expert in developing these criteria is a vital step, without a common ground of understanding; often performance metrics will be far from the intended target.

**Question 7:**

In your opinion, what is the primary and most important change that needs to be implemented to improve the Army’s IT PBSAs?

Each respondent was asked “what is the primary and most important change that needs to be implemented to improve the Army’s IT PBSAs”. The answers are as follows:

One government technical staff member stated that less emphasis should be placed on cost and more emphasis should be placed on other factors such as technical merits of the bid and the contractor’s past performance. Past performance needs to be scrutinized.

When contracts are being awarded for IT work, one government technical staff member would like them to be routed through the IT office to verify the application and software that can be applied to equipment within the government. Sometimes unforeseen costs/time occurs due to lack of coordination.

The government procurement staff member feels that more samples and lessons learned need to be made available.

Develop education and consistent practices, checklists for buyers to look for as it relates to IT acquisitions, and increase education for the workforce on IT acquisition management is the suggestion of one government technical staff member.
One government technical staff member feels that IT personnel need more than classroom training to be effective in development of IT contract vehicles. Hands-on experience is by far the most beneficial training method. For the most part, the Information Management Specialist is poorly equipped to absorb and understand the fundamentals of the acquisition community, let alone its subtleties.

Finally, the TACOM contractor feels that the Army should continue to look out to the corporate world and develop some of the metrics and incentives used in IT PBSAs. Dashboards, milestones, balance scorecards, and goals and controls are just some of the performance criteria currently being used to measure and encourage performance. The one thing all of these programs have in common is the customer and the contractor come together to discuss and determine what the measurements should be to foster a win-win situation during the contract.

G. INTERVIEW QUESTIONS AND RESULTS

The results from both Government and Contractor IT Management Personnel are as follows:

**Question 1**: This question asked if the type of contract was appropriate for the type of work required by the contract.

Both Government and Contractor personnel interviewed are currently using firm fixed price contracts and felt that this type of contract was not appropriate for the work required under their contracts. There are areas where a fixed price line item is appropriate, but there are also line items that need more flexibility than a firm fixed price contract allows, i.e., a line item where the service involves changing technologies or application development/maintenance may fit better as level of effort line item. Consequently, the most appropriate contract type would be one that provides the most flexibility and can accommodate changing technology and fluctuations in budget and workload.

**Question 2**: Did The Team Receive Any Training On PBSA?

When asked if the team received training on PBS, the Government IT Manager at TACOM-RI, stated that his team did not received training on PBS. This person also
stated that team training was not emphasized, nor was the team involved in the development of the acquisition strategy or the actual solicitation/contract since the acquisition was developed under the A-76 program. The secrecy of the A-76 process did not lend itself to ensuring that all parties had a thorough understanding of what type of training and contractual requirements were needed to ensure that the Government was getting a fair comparison from both the Government and private industry.

While the government personnel did not receive training, both TACOM IT contractors stated that their firms ensure that each program manager is provided training on PBSA. In fact, one of the TACOM IT contractors stated that his program managers receive the same training that is offered to Government acquisition personnel. This contractor feels that this helps his company in building a relationship with the Government after the contract is awarded. In his opinion, he feels that it enables his company to help the Government further define the desired outcomes as the contract is performed and to deal with the unintended consequences as they occur.

**Question 3: Were the desired outcomes clearly stated in the contract?**

Both the Government and Contractor interviewees stated that the desired outcomes were not clearly stated. One of the TACOM IT Contractors stated that he would review sampling procedures/requirements in the QASP and make sure that processes were in place to insure adequate surveillance of the contract. However, the Government manager did state that there was no distinction between the critical and routine components of the services required under the contract and, in some cases; this diluted the effectiveness of having the QASP. Two of the three interviewees stated that the QASP is not effective in achieving the desired outcomes because the Government failed to properly identify the desired outcomes from the onset. As the Government Manager stated in his interview, the unintended consequence of not clearly defining the desired outcomes or not knowing what truly was a desired outcome resulted in the Government being forced to perform more detail surveillance than originally intended. Consequently, this was a very costly consequence of outsourcing for both the Government and the private contractor. The private contractor agreed that the Government did not clearly define their desired outcomes. He stated that the
Government does not necessarily know how to define their metrics. In his opinion, the Government personnel do not know how to measure performance using metrics; therefore, it is hard for them to know how or what their desired outcomes are. The contractor substantiated his statement by stating that his firm has been assisting the Government Most Efficient Organization (MEO), at a subordinate command, with refining their metrics and providing reporting data. In fact, this information provided with the contractor’s assistance resulted in the Government organization requiring additional personnel to perform the required services.

In conclusion, both all three interviewees provided candid responses and stated that PBSA is the correct tool to use for IT PBSAs, however, there are a lot of lessons learned that need to be considered when the next contract is developed.

H. SUMMARY

Ten surveys were distributed, with six surveys completed and returned. Additionally, three interviews were conducted based on information received from the surveys. Survey and interview results have been compiled in Chapter III. Chapter IV compared the real world findings with the expected results gathered during the Literary Review in Chapter II.
IV. FINDINGS AND RESULTS (LITERARY REVIEW AND SURVEY/INTERVIEW RESULTS)

A. INTRODUCTION

This chapter will provide a comparison of the findings discussed in Chapter III with the expected results discussed in Chapter II of this research project. As stated in Chapter II, the literary review provided the basis and rationale why PBSAs are so important. The importance of any PBSA is to assist the organization(s) with performance measurements and objectives. Additionally, the surveys and interviews included in Chapter III indicate real world experiences. Based on these findings and results, Chapter IV will provide recommendations and conclusions.

B. COMPARISON OF FINDINGS TO EXPECTED RESULTS

In performing a comparison of the information gathered in the literature review with the results of the surveys and interviews, the research identified various disconnects or deficiencies in the PBSA process. These deficiencies and disconnects were identified in the following areas: establishing the PBSA team, defining the requirement, conducting market research, solicitation development (SOW, PWS, Measuring Performance Standards, Metrics, Incentives and Remedies, Awarding the Contract, and Contractor Surveillance. The remainder of this chapter will discuss each of these areas in detail.

1. Establishing of the PBSA Team

The literary review, conducted in Chapter II, stated that establishment of the acquisition team is essential to the success of any PBSA. To stress the importance of the development of the acquisition team, the FAR defines the acquisition team in the Guiding Principles. This is done to ensure participants are identified beginning with the customer and ending with the contractor who has performed the required services. By identifying the team members in this manner, teamwork, unity of purpose, open communication, team members sharing the vision and achieving the goal of the acquisition is encouraged (FAR Part 1.102-3).
The DoD Directive 5000.2 indicates that with any acquisition, the Integrated Product Team (IPT) should be comprised of technical personnel, acquisition personnel, and contractor personnel, depending on the acquisition (DoDI 5000.2, 2004).

The results of the surveys and interviews discovered that development of the acquisition team was not being completed as required. One of the Government IT management personnel interviewed stated that, in their situation, the lack of participation by the PBSA team was possibly a result of the solicitation/contract being developed under the A-76 cost comparison process, and that the secrecy associated with this process did not allow the government technical personnel and contractors to work as a team.

In addition, all survey respondents, both government and contractor personnel, felt that to be a more informed participant in the PBSA team, the Government technical personnel need to receive training in the development of IT PBSAs. Additionally, one of the Government IT Managers surveyed stated they felt that as part of the team they should also receive training in the fundamentals of acquisition. Still, another survey indicated that acquisition personnel needed to have a clear understanding of the expected results in order to assist the team with the best acquisition strategy.

2. Defining the Requirement

To define the requirement, the literary review states the PBSA team needs to describe the problem to be solved using performance specifications (outputs, quality, and outcomes) instead of design specifications (inputs and processes) (Martin 2002). In addition, when defining the requirement, the agency must develop performance goals and objectives, which can be included in the PWS or SOO (Seven Steps to PBSAs, 2005).

With the exception of the government procurement staff member, only two of our respondents, both government technical staff members, were involved in the development of the requirement.

A comment by one of the respondents was that the secrecy of the A-76 process did not lend itself to ensuring all parties had a thorough understanding of what type of contractual requirements were needed to ensure the government would get a fair comparison from both the government and private industry.
Additionally, the literary information provided in Chapter II stated that industry members feel that the government’s inability to clearly define their requirement stems from a lack of training and experience in PBSAs (GAO Report 02-1049, 2002). This was echoed by comments made in both the surveys and interviews conducted for this research project. In fact, the TACOM contractor interviewed felt the QASPs are ineffective and should not be used in PBSAs. Consequently, the PWS and QASP are always being modified due to the government’s inability to clearly define requirements.

The remaining government respondents were not included in defining the requirements of the acquisitions, even though they would ultimately be responsible for providing surveillance assistance for the resulting contract.

However, the Government technical personnel felt the PWS clearly defined the requirements or at least the desired outcomes and the subsequent QASP provided the contractor with enough information for them to perform the required services. Consequently, it is important for the PBSA team to have a clear understanding of the services required in any PBSA (Seven Steps to PBSAs, 2005).

3. **Conducting Market Research**

Market research is the responsibility of the PBSA team. They must examine both public and private sector solutions to their stated requirement. Even though the government has stated its preference for firm fixed price contracts for IT PBSAs, the literary review provides that market research is a good time for determining the appropriate contract type to fit the stated requirement, which may be a hybrid contract that contains both fixed price and cost reimbursement performance measures (Seven Steps to PBSAs, 2005).

The surveys and interviews did not specifically ask if PBSA team members were involved in the market research for their particular acquisitions. We could assume that the teams that chose other than firm fixed price contracts did some type of market research.

In discussing this issue with the contracting officers that have worked with PBSA contracts at TACOM-RI, the very first PBSA contract was a result of an A-76 study. For
this acquisition, the PBSA team was not involved in the development of the requirement or in the market research. Still, the research conducted for this project did indicate that a sources sought synopsis was issued for this acquisition as a means of soliciting interested parties. As this was the only market research conducted and due to the fact the PBSA team was not involved, adequate market research may not have been conducted, which could have lead to problems with the development of the SOW, award of the contract, and contract surveillance. In conclusion, market research is essential to the success of any PBSAs (Seven Steps to PBSAs, 2005).

4. Solicitation Development - SOW, Metrics, Incentives, etc.

The literary review conducted in Chapter II states that the solicitation and the required services must be written in support of mission-based performance goals. This is further reiterated in Step 2 of the Seven Steps to PBSAs, wherein it states the performance goals set the stage for the development of the solicitation (Seven Steps to PBSAs, 2005, Step Two). The survey results indicated that the PBSA team did not necessarily know what their intended outcome or performance objective was, therefore, they were unable to clearly identify how the mission goals related to the solicitation development. One of the reasons given for this problem could have been attributed to the secrecy of the A-76 cost comparison process and/or the lack of training and experience on the part of the technical personnel.

The literary review also provided an example on how an IT PBSA could be structured to meet the organization’s mission. The example illustrates the need for an IT organization to provide a local LAN network and infrastructure that can provide its customers with the highest quality and service. Thus, the focus or objective of the acquisition should be on quality and customer satisfaction. This should enable the organization to meet their organizational objectives of ensuring the organization “… has a cost-effective, efficient, accessible, and reliable network infrastructure with modern workplace software and hardware, to promote productivity and meet business needs” (Seven Steps to PBSAs, 2005). However, as previously stated, the research surveys and interviews indicated that the team and the acquisition did not clearly identify the intended
results. As a result, the contract did not necessarily meet the needs of the organization and/or support the performance objectives as intended by the GPRA and illustrated in Figure 1 (Seven Steps to PBSAs, 2005).

**Figure 1:**

**PERFORMANCE PLANNING AND PERFORMANCE-BASED ACQUISITION**

<table>
<thead>
<tr>
<th>GPRA Strategic Plan Requirement</th>
<th>Related Annual GPRA Performance Plan Requirement</th>
<th>Incorporation in Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>A comprehensive <em>mission</em> statement covering the major functions and operations of the agency.</td>
<td>No counterpart.</td>
<td>Establishes the function to be supported by the technology as central to achievement of the agency’s mission, answering in part the first &quot;pesky question&quot; – and makes clear to contractor(s) the mission-related role of the contract.</td>
</tr>
<tr>
<td>General goals and objectives, including <em>outcome-related</em> goals and objectives, for the major functions and operations of the agency.</td>
<td><em>Performance</em> goals, expressed in an objective, quantifiable, and measurable form, that define the level of performance to be achieved by a program activity.</td>
<td>Enables the statement of the requirement to address desired outcomes, placing a degree of performance burden on the contractor. [Note: For all but major acquisitions, the GPRA performance goals may need to be expanded to detail the cost, schedule, and performance goals required by FASA.]</td>
</tr>
<tr>
<td>A description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and <em>technology</em>, and the human, capital, <em>information</em>, and other resources required to meet those goals and objectives.</td>
<td>The operational processes, skills and <em>technology</em>, and the human, capital, <em>information</em>, or other resources required to meet the performance goals. [Note: the description in the annual plan may be more detailed than that in the strategic plan.]</td>
<td>May be used to flesh out the statement of requirements in terms of an approved (by agency, OMB, and Congress) approach and required resources.</td>
</tr>
<tr>
<td>A description of the <em>program evaluations</em> used in establishing or revising general goals and objectives, with a schedule for future program evaluation.</td>
<td><em>Performance indicators</em> to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity. The <em>basis for comparing</em> actual program results with the established performance goals. The means to be used to verify and validate measured values.</td>
<td>Permits development of a complementary contractor evaluation process (to the extent that the contractor will be responsible for meeting performance goals and objectives) that can feed into the program evaluation process. [Note: For all but major acquisitions, the GPRA performance indicators may need to be expanded to detail how to measure the cost, schedule, and performance goals required by FASA.]</td>
</tr>
</tbody>
</table>
As illustrated above, the chart depicts the linkage between an organization’s strategic plan, their annual plan, and the PBSA. Thus, this enables the organization to link the funding required to meet mission objectives to performance requirements and desired outcomes. Note that the focus here is not on the resources required, but on what outcome is required. With this foundation, when the planning process is complete, an agency should be able to demonstrate clearly how an individual acquisition's performance objectives will assist in achieving the agency's mission and goals (Seven Steps to PBSA, 2005).

**a. PWS, SOO, and/or SOW**

As the literary review indicated, once the performance goals are identified, the team should switch their focus to the desired outcomes and objectives surrounding the acquisition (KnowNet, 2005). The survey results and subsequent interviews indicated that the SOW, PWS, and/or the SOO did not support the desired outcomes. As the contractor personnel indicated in their interviews, their experience has shown that with IT PBSAs, the SOW is often used as a living document that must be modified in order to get the outcomes desired. The problem with this type of philosophy is that it can affect the integrity of the acquisition, as other contractors did not have the same opportunity to submit their proposals to the revised SOW, which actually provided the desired outcomes.

Additionally, the government personnel surveyed and interviewed also stated the PWS did not clearly identify desired outcomes. The Government technical team stated that they understood the intent of the IT PBSA and felt that the contractor also should have clearly understood what was required under this contract. However, their vision could have been clouded by the fact that they were the contractor’s competitors and had previously performed these tasks as government employees. As the literary review has shown, there is no standard template to provide the PBSA team with assistance in writing a PWS (Seven Steps to PBSA, 2005). In addition, FAR guidance only requires that the PWS describe the requirements in terms of results rather than processes: use measurable performance standards and QASPs; provide for reduction of fees or price; and include performance incentives as appropriate (Seven Steps to PBSA,
For government personnel who are not familiar with PBSAs, the FAR guidance does not provide adequate information for development of critical parts of the PBSAs. This will be discussed further in this chapter and in Chapter V.

b. Measurable Performance Standards or Metrics

The literary review in Chapter II showed that performance standards or metrics play an important part in any PBSA as they are directly linked to the desired outcome(s) (Seven Steps to PBSA, 2005). However, the use of too many metrics can be costly both to the government and to the contractor. The more metrics contained in a contract the more technical personnel are required for contractor surveillance. Additionally, the contract cost increases with every metric imposed on the contractor. Consequently, the PBSA team should only include metrics, which are relevant to desired outcomes, as well as being measurable. Therefore, as a rule of thumb, PBSAs should only contain one performance metric for each task unless otherwise required (KnowNet, 2005).

In comparison, none of the survey respondents indicated that they were involved in the development of any metrics used on their PBSAs. In fact, the Rock Island Arsenal DOIM stated in that some of the requirements, under the PBSA, were written by another organization. Yet, the primary reason for the use of metrics in their contracts was to focus on schedule and performance; this included successful implementation of applications, reporting requirements, a detailed performance requirements summary, and remedies for substandard performance. Without a clear understanding regarding metrics being imposed under the PBSA, the technical personnel were reviewing all processes instead of focusing on the metrics, which could have assisted the organization in meeting their GPRA requirements (Seven Steps to PBSA, 2005). The government spent additional resources gauging the contractor’s performance, yet it is unknown how this related to the performance standards and mission goals. On the other hand, both the government and contractor interviewees felt that metrics are important and that training was needed to assist them in this area.
c. **Incentives and Remedies**

Besides ensuring the solicitation contains the appropriate metrics, the acquisition is also shaped by the type of contract incentives. The research showed that contract incentives could be monetary or non-monetary, as well as being positive or negative (PBSA in the DoD, 2000). It is interesting to note that the survey results and interviewees did indicate that their contract had negative, monetary incentives. Therefore, the only remedy to motivate the contractor for not meeting an Acceptable Quality Level (AQL) was to reduce monies based on a formula included in the contract. These discrepancies can be attributed to the lack of training and experience that the PBSA team had when they were developing the PBSA. Motivating the contractor to exceed Acceptable Quality Levels (AQLs) and contract expectations is a new concept for the DoD. The team may not have realized that they should look at the complexity, risk, and dollar value of the PBSA when they are formulating the type of incentive and/or remedies to include during the development of the PBSA. They most likely reviewed the FAR guidance, which states that, “Firm Fixed price contracts are generally appropriate…” and decided to look no further (FAR 37.602-4). Thus, the team limited the government’s ability to include other incentive arrangements. Consequently, PBSA teams generally structured their PBSAs based on firm fixed pricing.

As one of the TACOM contractor interviewee stated that under this scenario, the contractor focused on performing the services that provided them with the most profit. Again, both the contractor and government personnel stated that the lack of training and experience could have attributed to the way the incentives were structured in (of) the solicitation. Another factor that was brought out during the interviews was that an A-76 cost comparison process appears be inflexible and does not allow a teaming environment and/or the sharing of ideas throughout the acquisition process. Moreover, if the PBSA team would have reviewed FAR 37.6 and then looked at FAR 16.103(b), they may have realized that they were not limited to structuring the solicitation as a firm fixed price contract (FAR 37.602-4). Consequently, other contract types can be considered “…that will appropriately tie profit to contractor performance” (FAR 16.202). Nevertheless, all respondents agreed that each PBSA should be structured to the meet the
requirements of the services required. Therefore, the PBSA team should be aware that there is not a "one size fits all" approach; instead, the incentive structure should be geared to the acquisition, the characteristics of the marketplace, and the objectives the government seeks to achieve (Seven Steps for PBSA, 2005).

5. **Awarding the Contract**

As discussed in Chapter II, selecting the right contractor for the job is essential in order to ensure that mission goals are met and customers are satisfied (Seven Steps to PBSA, 2005). This process can be hampered with numerous problems from improperly structuring the solicitation to lack of training and experience of the individuals evaluating offerors proposals (Seven Steps to PBSA, 2005). While the A-76 process and a protest can be linked to the selection of the contractor for the previous IT PBSA, it is unclear if the outcome would have been different if the acquisition had been structured differently. In interviewing the contractor personnel, they stated the A-76 cost comparison process tends to promote a hostile environment, no matter who is selected. Therefore, some companies will not even submit proposals against the government when the A-76 process is involved. The Government IT manager interviewed stated that with the recent A-76 PBSA, there were numerous changes in the acquisition personnel assigned to the acquisition. This contradicts the intent that has been echoed in the literary review topic regarding the PBSA team (Seven Steps to PBSA, 2005). The government technical IT interviewee stated that there were five contracting officers who were involved in various stages of the acquisition. The research showed that the contracting officer who awarded the previous IT PBSA was different than the one last assigned to administer and monitor the contract. This situation did not help with the surveillance of the contract since the contracting officer administering the contract had no previous knowledge on how the acquisition strategy was developed.

Still, all survey/interview respondents stated that both the IT technical and/or the 1102 acquisition personnel lacked the expertise and training in PBSA. Without the expertise in PBSAs, the PBSA team had a difficult time in selecting “the right contractor” (Seven Steps to PBSA, 2005). Consequently, both the contractor and government
personnel emphasized the importance of PBSA training to ensure that the government can select a contractor who can provide the highest quality service at a reasonable cost (Seven Steps to PBSA, 2005).

6. Contractor Surveillance

According to the literary review, the PBSA team should also be involved in the contractor surveillance. Only then can the Government ensure that it is gauging the contractor’s performance based on the objectives stated in the PWS. As discussed in Chapter II, GAO recognizes surveillance is critical to the organization’s mission (GAO Report Number 05-274, 2005). Thus, the individuals conducting surveillance must have the knowledge and background necessary to gauge the contractor’s performance (GAO Report Number 05-274, 2005). However, this assumes that the PWS has been written to ensure that the organization’s objectives are being met. Based on the surveys conducted for this project, it is unclear that the desired outcomes are being achieved. As the contractor interviewee stated, the Government has not clearly defined what their desired outcomes are and has resulted in numerous contract modifications. As one of the TACOM contractors stated, the government is unaware of what their desired outcomes are and, often, the contractor has to assist the government in determining their outcomes after contract award. Furthermore, this contractor stated that, in his opinion, performing surveillance is a new concept for the government. According to the interviewee, the Government has a hard time conducting surveillance since this is a new mindset in which the government has little or no experience. Consequently, to overcome this mindset, the PBSA team must ask the following questions: what are we measuring, what are the desired or intended outcomes, and how does this relate to the organization’s mission objective (KnowNet, 2005).

Additionally, the government technical interviewee stated that they did not write the QASP for the previous contract; therefore, they did not know if the QASP clearly defined the intended results. This contradicts the literary guidance which states that the PBSA team should prepare both the PWS and the QASP (KnowNet, 2005). On the other hand, both the government and contractor personnel agreed that the QASP and surveillance techniques could be viewed as subjective. As the literary research has
shown, “there is nothing wrong with the subjective measurement of a service as long as it is done in accordance with a reasonable, fair and consistently applied standard” (KnowNet, 2005).

The TACOM IT Contractor stated that surveillance should be done on a bell-shape curve basis. This would ensure that the highly visible, critical elements are running smoothly at all times. The contractor could then focus their performance on these elements to ensure the IT infrastructure is being maintained to avoid downtime and/or any degradation to systems/equipment.

Still, both the government and contractor management interviewed agreed that surveillance could be viewed negatively. For example, the previous IT PBSA surveillance team focused their results on how much money could be deducted from the contract instead of the desired objective of providing the highest quality service to their customers.

As real world experiences and literary review have shown, the contracting officer is often tasked with developing the team relationship between the government and the contractor. This often requires the Contracting Officer to assume the role of an arbitrator to ensure that both the government and contractor are being treated equitably.

In the case of the most recent IT PBSA, the warranted Contracting Officer stated that they were even involved in Alternate Dispute Resolution (ADR) as a means of resolving differences between the contractor and the government technical personnel. The ADR approach was used to resolve differences between the contractor and the government technical personnel. The differences ranged from measurable standards, an acceptable quality level, incentives, etc. All parties surveyed indicated that this situation was partly attributed to the fact that the government lost the A-76 competition. Consequently, the surveillance team was perceived to be too harsh and did not always appear to conduct themselves with the utmost integrity.

On the other hand, the contractor personnel stated that, in their opinion, the QASPs are not necessarily a good tool to gauge the contractor’s performance. They felt that the same surveillance could be accomplished by scheduling weekly, biweekly,
monthly, or quarterly In-process Review (IPR) meetings. These IPRs can be structured with an agenda and can provide a forum for both the government and the contractor to gauge if the intended outcomes are being accomplished and, if not, why. Additionally, these IPRs can be used as a forum in establishing and building the relationship between the two parties.

Consequently, it is imperative that the team be established from the onset, and the team should consist of technical personnel, which will eventually have the responsibility to perform contractor surveillance. When a team member has to be replaced, the new team member should receive PBSA training prior to joining the team. The team member should possess technical “knowledge, experience, and insight into what needs to happen next, and what is expected during contract performance. Contract award is not the final measure of success. Effective and efficient contract performance that delivers a solution is the goal. The team should stay together to see that end reached” (Seven steps to PBSA, 2005).

C. SUMMARY

In conclusion, this chapter provided a comparison and analysis of the literary review discussed in Chapter II, with the surveys and interviews discussed in Chapter III. The research showed that the government personnel lack the training and expertise needed in order to clearly define their requirements in order to perform adequate contractor surveillance. Additionally, survey results show that PBSA members need to have an understanding of their roles and responsibilities in any IT PBSA (Seven Steps to PBSA, 2005). The surveys indicated that technical personnel felt that acquisition personnel lack knowledge in the IT process, which can hinder their ability to recommend the correct acquisition strategy. Additionally, technical personnel’s lack of knowledge regarding the acquisition process can cause problems when it comes to contractor surveillance. Therefore, technical personnel who will be responsible for monitoring the contractor’s performance need to understand their responsibilities long before the contract is awarded (Seven Steps to PBSA, 2005). Furthermore, Chapter V will provide the research conclusions, recommendations, and areas for further research.
V. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCTION

As stated in Chapter I, the purpose of this Joint Applied Project professional report is to analyze IT performance based service acquisitions within the U.S. Army Tank Automotive and Armaments Command (TACOM) and to evaluate what performance measurements are being used to gauge the contractor’s effectiveness against the performance measures stated in the contract. In addition, this research will evaluate incentives, as well as penalties used, to incentivize the contractor to provide the level of service envisioned by the Government.

In conclusion, the purpose of this research will analyze how the development of performance measures, incentives, and penalties affect the ability of the surveillance team to adequately administer the contract. This information will be used to develop and post a performance measurement guide on the TACOM Community website to provide all contracting personnel with means to develop performance measures for IT PBSAs.

In order to accomplish this research, the following questions were developed:

1. To what extent are performance-based measures being used to manage TACOM IT PBSAs?
2. How clear and applicable are PBSA contracting policies and procedures, e.g., statements of work (SOWs), performance work statements (PWS), and statements of objectives (SOOs)?
3. What are the incentives and penalties affecting PBS contracting?
4. What are ways to improve U.S. Army, TACOM-RI, PBSAs, including methods promulgating web-based guidance to practitioners?

This chapter will discuss the research questions and provide conclusions, recommendations, and areas for further research based on the analysis performed during this research.
B. CONCLUSIONS

In response to the first question evaluated under this research which asked, “To what extent are performance-based measures being used to manage TACOM IT PBSAs,” the research indicated that nearly all the acquisitions contained performance measures. However, the research showed that the performance measures did not necessarily yield the desired outcomes. In addition, the research of both governmental guidance and best commercial practices showed that these performance measures should be kept to a minimum in order to adequately perform contract surveillance.

However, in reality, the research showed that often the PWS, SOO, QASP, etc., included too many performance standards. This contributed to the lack of incentives to motivate the contractor to exceed expectations, especially on firm fixed price type contracts. The research showed that contractors would often zero in on the areas where they can gain the most profit at the expense of other tasks required under the contract. Although the performance measures are included in the PBSA, they are not necessary yielding the desired outcomes. This can be attributed to the PBSA team’s lack of experience and training regarding PBSA.

Additionally, the literary review on PBSA, PWS, and QASP indicates that performance measures should begin with the definition of the requirement; the research showed this was not always being done. This cannot be accomplished unless the PBSA team has a clear definition of the requirements. To accomplish this task, the PBSA team must continuously work with the stakeholders, i.e., customer(s) to ensure that they have a clear understanding of the desired outcomes. Consequently, it is essential that the team members remain consistent throughout the PBSA (Seven Steps to PBSA, 2005).

In response to the second question, the objective of this research was to find out if the current policies and procedures regarding PBSAs are clearly identified and applicable for this type of acquisition technique. This includes documents such as statements of work (SOWs), performance work statements (PWS), and statements of objectives (SOOs).
The literary review conducted in Chapter II indicates that there are many PBSA guidebooks and reference sites which can be found on the internet. However, as part of the research into PBSA, it was discovered that there is some confusion regarding what topic to look for, i.e., is the acquisition under PBC, PBSC, and/or PBSA. In fact, the OFPP Interagency Task Force has issued recommendations to clear up this confusion. The recommendations include adding definitions to FAR Part 2 for PWS, QASP, SOO, etc. In addition, this report rescinded out of date guidance and the OFPP Best Practice guide of 1998 in favor of the Seven Steps to PBSA guide (PBSA Contracting for the Future, 2003).

As discussed in Chapter II – Literary Review, this guide provides seven comprehensive steps along with references in performing any PBSA. Furthermore, the KnowNet website at http://knownet.hhs.gov/aboutKnowNet.htm provides a handy desktop reference and is broken out into the various acquisition phases, beginning with the formulation of the PBSA team through contract completion and close out.

Another resource is the Department of Defense Education Activity (DoDEA) customer guide, which provides non-acquisition personnel with guidance to Federal acquisition systems (DoDEA, 2005). Consequently, there are plenty of reference materials available to assist the PBSA team with any PBSA. Even though there is guidance on PBSA, each team member should have PBSA training. This will assist the team in being able to evaluate and narrow down their guidance material specifically for their particular type of acquisition.

The third question used in this research project investigated the incentives and penalties affecting PBS contracting and found that there are many types of incentives available, both non-monetary and monetary. The research showed that often times, the PBSA team reviews the context at FAR 37.6 and uses firm fixed pricing as a technique to incentivize the contractor to perform the required services. Based on the surveys, interviews, and literary review, this can be attributed to the PBSA team’s lack of knowledge and experience in PBSA. Additionally, the team may lack the appropriate training to be able to identify what added value incentives can bring in contractor surveillance.
To conclude, the fourth question used in this research project was previously addressed in Chapter IV. The project reviewed the information provided under Chapter IV, Analysis and Findings, which indicated that there are various disconnects and discrepancies that need to be addressed in any PBSA. Chapter IV also provided various ways that a team can improve U.S. Army and TACOM-RI PBSAs, to include methods promulgating web-based guidance to the entire acquisition workforce. These methods include the following:

1. **Establishing the PBSA Team**

A literary review of Commercial Best Practices and government sources has indicated that PBSA teams should be formed early in the acquisition process. The real world information obtained in Chapter III indicates this is not what is currently happening in TACOM acquisitions. In addition, the research indicated that there is a lack of consistency in team membership, which is inconsistent with the principles stated in the Seven Steps of PBSA.

The team must have senior management support to ensure any PBSA is successful. This support includes a commitment that the PBSA team who develops the PWS is that same team that provides surveillance after contract award.

Additionally, the research shows that many of the PBSA team members have not received sufficient training on PBSAs to be an effective team member. Yet, there is no indication that training has been a requirement in the past or will be in the future for PBSA team membership. To be an effective member of the PBSA team, all team members should have documented proof that they have received training in the PBSA process and have a basic understanding of the acquisition process.

Furthermore, the research has shown that the acquisition workforce does not necessarily have the experience or the knowledge base required to perform a PBSA. Therefore, the acquisition workforce must receive training on PBSAs and, if possible, be allowed to participate on a PBSA before they are assigned the responsibility of a PBSA.
The TACOM organization must recognize and support the PBSA team in the challenges they may face throughout the PBSA process. Only then will the team feel empowered enough to possibly think outside the box.

2. **Defining the Requirement**

   The research indicates that more attention needs to be given to defining the requirement. The team should assist the customer in identifying their requirements in terms of outcomes instead of stating how to perform the services required.

   Identification of the requirement should be associated with the organization’s mission and must be measurable. However, in order for this to occur, the PBSA team and the organization must move away from doing business as usual. This will involve significant changes in the way TACOM currently conducts their PBSAs, and they cannot be successful without conducting adequate market research.

3. **Conducting Market Research**

   All acquisitions, including PBSAs, are required to have documentation that shows adequate market research was conducted. Yet, many in the acquisition workforce and PBSA team members do not know what constitutes adequate market research or how to go about it.

   Acquisition personnel are usually brought into the PBSA acquisition process after the requirement has been identified. As a result, market research is usually performed after the customer’s minimum needs have been recognized.

   The responsibility of conducting market research was designed to be accomplished by the Program Manager as they have the market expertise to conduct adequate market research; but the requirement to conduct the market research has been passed to the contracting officers/contract specialist (1102s).

   Traditionally, the 1102s do not have the market expertise nor the background and experience to be market analysts. As a result, 1102s are now expected to assume a different role and become market experts. Until 1102s are able to get more experience in becoming experts in the markets of the services they purchase, adequate market research will not be completed.
By conducting adequate market research, the PBSA team will be able to determine the appropriate contract type, terms and conditions, length of the contract, incentives, and industry practice and standards.

Without adequate market research, the best solutions available to meet the customer requirements may not be considered. This results in the customer not being satisfied and the organization’s mission not being met.

The Seven Steps to PBSA states the team should use commercial standards whenever possible, which could assist the team in formulating their performance standards and metrics. Additionally, if there are industry standards available, then all potential offerors should already know what the expected performance is in any resulting contract.

In addition, market research can assist the team in selection of contract type and incentives for the PBSA.

Still the team and the organization should place more emphasis on performing market research throughout the process (Seven Steps to PBSAs, 2005).

4. Solicitation Development – SOW, Metrics, Incentives, etc.

It is essential that the PBSA team write the PWS in relevant and measurable terms. Additionally, the PWS must be written in terms of what the desired outcomes are and not what or how the services were previously performed. This is a cultural change for the technical personnel who once provided the services. Often the COR, COTR, or the QAE previously performed the same function and are now responsible for monitoring the contractor performance. Consequently, it is imperative that PBSA team applies sound business judgment when writing the PWS to ensure that the government provides all offerors with clear, concise, and measurable standards for the required services. Otherwise, contractors may fail to submit alternative approaches to perform the same services, which could result in a lower cost to the customer or a higher-level of service.

5. Measurable Performance Standards or Metrics

Although the literary review on PBSA provided information and references regarding metrics, it is unclear that the Government personnel surveyed had any
knowledge or experience in selecting and evaluating metrics for any PBSA. The research indicated that the PBSA team should use existing commercial quality standards, if applicable. These standards should be identified during market research if done properly (Seven Steps to PBSA, 2005).

Additionally, a Quality Assurance Plan (QAP) should be requested as part of the acquisition process. It ensures that the government receives the required services under any resulting contract. This plan provides detailed steps, which the contractor must take to make sure that they perform in accordance with the performance standards as stated in the contract.

The QAP sets the "what," "how," and "how often" of quality assurance, and helps the offeror determine the level of resources needed to adequately staff the project. It also reflects the value of each performance requirement as a percentage of the overall contract, so the offeror can focus his resources in the appropriate areas” (Rogin, 2001).

However, it does not have to be made part of the resulting award. Usually after award, the contractor will submit a quality control plan (QCP). The QCP must be approved soon after the contract is awarded and is often modified as needed to cover unanticipated changes or new technologies. As a result, the PBSA team must conduct adequate market research to assist them in identifying the appropriate metrics needed for each PBSA.

6. Incentives and Remedies

The literary review indicated that incentives could be monetary or non-monetary and negative or positive. However, it is unclear when or what incentives are appropriate for each PBSA reviewed. The incentives are used to motivate contractor performance. Many of the acquisitions that were reviewed during this research project were Firm Fixed Price (FFP). Often the FFP contracts are viewed to have a negative incentive, and the focus is on deductions for non-performance instead of motivating the contractor to exceed contract expectations. Consequently, the PBSA team and acquisition personnel have not taken into consideration the value added importance that incentives can bring in contractor surveillance.
7. **Awarding the Contract**

As stated in the Seven Steps to PBSA, the “key to selecting the right contractor is to structure the acquisition so that the government describes the problem that needs to be solved and vendors compete by proposing solutions.” This will assist the PBSA team in selecting a contractor who offers a quality solution to the PWS and the contractor’s proposal will then “becomes a true discriminator in best-value evaluation” (Seven Steps to PBSA, 2005).

However, the research of the real world experiences indicates that best value acquisitions often are selected by the lowest price offered. In conclusion, the PBSA team needs to evaluate the PBSA to see if best value techniques are appropriate and, if so, that they have the knowledge and experience to select the appropriate evaluation factors which will yield the best value to the government. Thus, if the contractor represents the best value to the government, then the team should be able to monitor the contractor’s performance based on the information provided during the solicitation.

8. **Contract Surveillance**

As GAO report 05-274 stated, DoD has not adequately performed contractor surveillance (GAO report 05-274, 2005). Yet this is not the case based on the results from survey and interviews performed for this research project. The QAEs perform contractor surveillance either on a daily, weekly or monthly basis.

The research also indicated that the QAEs often sought ways to reduce the contract amount due to inadequate and/non-performance issues. The QASP contained too many tasks that were being measured; however, they might have been relevant to the overall performance of the contract, or they may have decreased the significance of each task to where the contractor picks and chooses which task to perform.

Consequently, the QAEs and the PBSA team need to remember the importance of obtaining desired outcomes and meeting organizational mission and goals when writing the PWS and the QASP. This will ensure that customer’s needs are being met.
C. RECOMMENDATIONS

In order to be able to increase the number of PBSAs being done in the organization and to ensure the ability of the PBSA team to effectively perform surveillance on the resulting contracts, the research indicates that DoD’s culture must change. The workforce, including management, must have a clear focus on the reasons why PBSAs are important and how they can help the PBSA team ensure that the PBSA will meet the performance goals in order to accomplish the organization’s overall mission.

Additionally, the PBSA team must let the contractor provide solutions to the stated problem and let the contractor be responsible for contract performance. If the government directs the contractor on how to perform the services, then, in essence, “they've taken responsibility away from the contractor and onto themselves,” (Mathers, 2001).

To help ensure contractor provides the level of performance that the government has envisioned, the contractor must become a part of the team after contract award and must be treated as such. This is another cultural change for the government acquisition workforce.

Consequently, the team takes on a different role of working with the contractor and also monitoring their performance. The key is to build on the relationship with the contractor and to find ways to motivate them to exceed expectations; thus, satisfying the customers needs while meeting the organizational goals.

Consequently, it is important the PBSA team be established from the onset of the acquisition and remains consistent throughout the acquisition process to contract closeout.

1. Team Consistency

As identified in our literary review regarding PBSA, both industry and government resources have stated that in order to adequately perform contractor surveillance there must be consistency in the team membership. Organizations must ensure that the team who initiates the acquisition should also be the team that performs
contractor surveillance. After all, they are the ones that have the knowledge to judge whether the performance standards are being met or if changes are in order.

2. **Conduct Adequate Market Research**

The PBSA team needs to be held accountable for conducting adequate market research. They need to understand that market research is not a one-time effort and not the responsibility of the contracting officer. Additionally, they need to perform market research in conjunction with assisting the customer(s) in identifying their minimum needs. Therefore, open communication is required with all stakeholders involved in the PBSA.

The literary review states that the team can obtain assistance from private industry regarding market research. However, this does not solve the problem of knowing when and how to perform market research. Market research is just not the identification of solutions for the problem; it also includes terms and conditions, length of the contract, incentives, industry practices and standards.

The Seven Steps to PBSA states, the team should use commercial standards whenever possible, which could assist the team in formulating their performance standards and metrics. Additionally, if there are industry standards available, then all potential offerors should already know what the expected performance is in any resulting contract.

In addition, market research can assist the team in selection of contract type and incentives for the PBSA. The PBSAs reviewed at TACOM were firm fixed price (FFP) type contracts. These types of contracts place the total risk on the contractor and should incentivize them to hold down costs. However, this type of vehicle may not be the correct vehicle to use on PBSA. The team needs to make sure that the acquisition contains incentives which will allow the contractor to propose innovative approaches and ultimately provide savings to the government. Consequently, the incentives included in the acquisition must be equivalent to the risk and complexity of the PBSA.
3. **Knowledge of Monitoring Tools**

The literary review on PBSA revealed that there are no templates for PWS, QASP, etc. (Guideline to PBSA, 2001). Still, the PBSA team should be able to obtain lessons learned and copies from present or past acquisitions to assist them in drafting these documents from various resources, such as, KnowNet, Seven Steps to PBSA, etc. This information can help the COR, COTR, and/or the QAE with the use of surveillance tools such as QASP and Acceptable Quality Level (AQL). After all they are responsible for ensuring that the contractor is meeting the desired outcomes.

The QASP is an essential piece of any PBSA. Yet there is no clear and concise guidance on how to develop one. In order to achieve this, the PBSA team should make sure that the QASP reflects the contract objectives. In addition, the team needs to make certain that the level of surveillance reflects the critical level, risk, dollar value, etc., of the required services (Acquisition Advisory Panel Performance-Based Contracting Subpanel Report, 2005).

The DOE Acquisition guidebook states “The QASP concentrates on the level of performance and not the method for achieving it” (DODEA, Customer Guide, 2005).

4. **Requiring Training on PBSAs**

All of the PBSA team members should receive training before they can participate in any PBSA. The team leader should have documented proof for each team member of the training they have received.

There are several excellent training sources available, through the Defense Acquisition University. Training can often be brought on-site if the requirement exists or the person can be sent to a training facility. In addition, there are several excellent on line web sites, which can assist the team with the PBSA. The KnowNet is comprised of different modules and provides frequently asked questions, along with reference material. Also, the Seven Steps to PBSA provides an extensive and comprehensive guidebook regarding PBSAs. Additionally, the Guide to PBSA, dated 2000, provides the guiding principles required for any PBSA. Consequently, the resources available to the team are abundant; it just takes time to research and time is not always available.
D. AREAS FOR FURTHER RESEARCH

1. Does the A-76 acquisition process hinder competition and cooperation on PBSAs?

Although the A-76 acquisition process has been streamlined, it is still very confusing.

2. Is the Government effectively using Quality Assurance Surveillance Plan (QASP) on PBSA and are the plans being effectively monitored?

In testimony before the Panel, Ms. Barbara S. Kinosky from Centre Consulting stated, “Government needs to learn not to create overly burdensome surveillance plans that will ultimately create a bureaucracy of contractors, monitoring contractors for compliance, only evaluate what is necessary to accurately measure success” (Ensuring the Effective and Appropriate Use of PBC. 2005).

3. Is the traditional 1102s receiving adequate training to assist them in performing PBSA? Should their expertise become more like that of a Market Analyst instead of just a manager of the acquisition process? What training can be provided to teach our 1102s to become market analysts?

Most service acquisitions do not usually have a specific Program Manager; therefore it is usually the contracting officer responsibility to lead the PBSA. This role is new to the traditional 1102, and they may not necessarily possess the knowledge and/or training to perform these duties. Traditionally, the contracting officer or 1102 has not had to be a market analyst, but with requirements of a PBSA, they must become market analysts and become technically familiar with the type of services required. In fact, this dilemma has lawmakers so concerned that the recently approved National Defense Authorization Act for Fiscal 2006 provides “for DoD officials to increase the number of acquisition employees by 15 percent by fiscal 2009.” Furthermore, the bill also calls for “a focus on hiring workers with skills in specific areas, such as writing performance based statements of work…” (Miller, 2005). Consequently, the current workforce should also be trained to perform these same duties and to act more like a market analyst.

4. How can the Government ensure that the team remains consistent throughout the acquisition process?

The FAR identifies the roles and responsibilities of the PBSA team, as well as stating that the team should be empowered to make decisions. However, it fails to state that the team members should be committed to the acquisition even after contract award.
As the research indicated, this is crucial for the PBSA team to be able to effectively monitor contractor performance. Yet, how can the government ensure that the team remains consistent?

Another question that arises is how can we ensure that the acquisition team adequately performs market research?

Although the FAR requires that each acquisition include adequate market research, it is still being left to the acquisition team. Team members are often not familiar with market research techniques; therefore, they are not sure how they can assist the acquisition personnel in performing market research.

E. SUMMARY/CONCLUSION

This chapter concludes the research performed regarding surveillance of PBSAs. As previously stated in this chapter, the research provided a summary of the conclusions uncovered during the research project. Additionally, it included recommendations which can assist the acquisition workforce and the PBSA team with all different stages of a PBSA. Finally, this chapter also included areas for further research regarding PBSAs.
LIST OF REFERENCES

Acquisition Advisory Panel, “Ensuring Effective and Appropriate Use of Performance-Based Contracting,” Oct 2005


Department of Transportation Performance-Based Service Contract (PBSC) http://www.dot.gov/M60/pbsc. Nov 05.


Articles on Performance-Based Acquisition

"What Performance-Based Contracting Really Means for Procurement Goals," Dennis B. Boykin IV

Learning Curve: Integrators get up-to-speed on performance-based contracting, Mar 2005, FCW.com

It's what's up front that counts, Nov 2003, GCN.com

OFPP to standardize program for performance-based contracting, Apr 2003, GCN.com

Tame the Compliance Monster, Apr 2002, GCN.com

GSA puts contracting tool online, Jan 2002, FCW.COM
INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center  
   Ft. Belvoir, Virginia

2. Dudley Knox Library  
   Naval Postgraduate School  
   Monterey, California

3. TACOM Rock Island  
   Executive for Contracting  
   ATTN: AMSTA-AQ-AR  
   Rock Island, Illinois

4. Marshall Engelbeck  
   Naval Postgraduate School  
   Monterey, California

5. Rene Rendon  
   Naval Postgraduate School  
   Monterey, California

6. Cdr. (Retire) Cory. Yoder  
   Naval Postgraduate School  
   Monterey, California