

## **AWARD/INCENTIVE FEE PLAN**

Contract Number:

Contractor

**Coordination:**

**Board Chairperson:**

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**System Program Manager**

**Approved:**

**Fee Determining Official:**

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**Program Executive Officer**

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## **AWARD/INCENTIVE FEE PLAN**

### **1.0 INTRODUCTION**

1.1 The purpose of this document is to outline overall strategy, define responsibilities, establish procedures, and identify criteria for determining Performance Based Logistics (PBL) Award/Incentive Fee applicable to (Contractor) under this contract. The contract specifically relates to sustainment support for the (Platform). This plan also describes contract performance measures and provides an explanation of data sources, methodology, and performance thresholds associated with applicable Award/Incentive Fees. In recognition of the change in metrics application from a fleet-level approach under the (Old Contract) to a base-level approach under the (New Contract) and to allow for lead-time away spares to adjust to levels which support the supply metrics, a transition period will be required. Therefore, the performance metrics for Year 1 will be different from the metrics for Year 2. Detailed definition of the metrics, how each is computed and the full range of Award/Incentive Fee performance is defined in the Surveillance Plan, Attachment X. The performance measures are:

#### Year 1

- Sustaining Engineering Support Response Time
- Customer Satisfaction

#### Year 2

- Mission Capable (MICAP) Hours
- Stockage Effectiveness
- Customer Wait Time (CWT) – Priorities 1 - 8
- Sustaining Engineering Support Response Time
- Customer Satisfaction

1.2 The (Contract) with (Contractor) contains provisions for an Award/Incentive Fee program. The primary objectives of the Award/Incentive Fee program are: to motivate (Contractor) to provide products and services that exceed customer requirements and focus (Contractor)'s efforts in desired areas, in accordance with the PBL performance measures.

1.3 (Contractor)'s performance will be assessed using the methodology outlined in the (Contract) Performance Work Statement (PWS) and the (Contract) Surveillance Plan (Attachment X). References to the applicable PWS sections and weighting for the individual performance measures are outlined in the (Contract) Surveillance Plan. (Contractor) will be subject to a Firm Fixed Price Award/Incentive Fee (FFP/AF) program, which recognizes minimum acceptable performance and rewards (Contractor) for increased levels of performance. The PWS contains the required services (thresholds) and levels of performance that will be evaluated by this Award/Incentive Fee program. The specific process for determining (Contractor)'s performance and corresponding Award/Incentive Fee is set forth in paragraphs of this plan and the (Contract) Sustainment Surveillance Plan.

1.4 The Award/Incentive Fee pool set forth in paragraph 7.0, Table 1, of this plan is established for this contract. A portion of the total Award/Incentive Fee pool will be available for award in each of the evaluation periods specified. The Award/Incentive Fee for each evaluation period is in addition to the agreed to pricing in the firm fixed fee portions of the contract. All Award/Incentive Fee determinations are independent of other determinations for the (Platform) program.

1.5 Award/Incentive Fees earned by (Contractor) shall be awarded by the Fee Determining Official (FDO). Unilateral changes to the metrics or the associated methodology may occur up to thirty (30) days prior to the beginning of an evaluation period. These changes will be implemented by means of a bilateral modification as described in Section 8.0. Any changes to metrics or methodology within the current period will be accomplished through bilateral agreement.

1.6 The determination of award-fee amounts are unilateral decisions made solely at the discretion of the Government.

1.7 Determination of (Contractor)'s performance and Award/Incentive Fee eligibility will be based on attainment of the objective and subjective performance measures outlined in Para 1.1 of this plan and further explained in the (Contract) Surveillance Plan. The method of assessing performance will be limited to (Contractor)'s activities and functions in performance as defined in this contract. (Contractor) will not be held responsible for failure to achieve performance measurements outlined in the PWS for reasons directly attributable to the Government. Examples of these are identified in the Introduction/Purpose section of the Surveillance Plan. Potential disagreements in this area are subject to the Disputes provision of this contract.

1.8 The Government will assure that (Contractor) be given the opportunity to understand the basis for the award amount as defined by paragraph 5.5. Also, the Government will assure fairness of evaluation, and prompt and consistent feedback. This process will form the basis for Award/Incentive Fee disbursements based on the final FDO determination.

## **2.0 ORGANIZATION**

2.1 The award fee organization consists of the Fee Determining Official (FDO), Award/Incentive Fee Review Board (AFRB) Chair, AFRB Advisory Members, and the Award/Incentive Fee Recorder.

## **3.0 RESPONSIBILITIES**

3.1 Fee Determining Official (FDO). The FDO will:

3.1.1 Appoint the AFRB Chairperson.

3.1.2 Approve the Award/Incentive Fee Plan.

3.1.3 Approve changes to the Award/Incentive Fee Plan, and/or associated Award/Incentive Fee criteria or methodology of determining amount(s) of Award/Incentive Fee.

3.1.4 Convene and Award/Incentive Fee board and determine the Award/Incentive Fee earned for performance delivered during the evaluation period.

3.2 AFRB Chairperson. The AFRB Chairperson will:

3.2.1 Chair the AFRB.

3.2.2 Provide executive-level feedback to (Contractor) on a regular basis in accordance with the areas of evaluation and criteria in the Award/Incentive Fee Plan.

3.2.3 Appoint an Award/Incentive Fee Recorder.

3.2.4 Recommend Award/Incentive Fee Plan changes to the FDO.

3.2.5 Present the AFRB's recommended rating to the FDO.

3.3 AFRB Advisory Members. AFRB Advisory Members are selected as appropriate to provide customer input and subject matter expertise to other AFRB members.

3.4 AFRB Members. The AFRB Members will:

3.4.1 Participate in the AFRB meetings and briefings.

3.4.2 Review performance reports for submission to the Award/Incentive Fee Recorder. (Ref Para 3.7.3)

3.4.3 Review evaluation reports and recommend the rating and Award/Incentive Fee amount to the AFRB chair and the FDO. (Ref Para. 3.7.4)

3.4.4 Recommend changes to the Award/Incentive Fee Plan.

3.4.5 Maintain written records of (Contractor)'s performance within their assigned evaluation areas.

3.5 Award/Incentive Fee Recorder. The Award/Incentive Fee Recorder will:

3.5.1 Manage all activities associated with the AFRB process.

3.5.2 Consolidate assessments and recommendations for presentation to the AFRB and FDO at both the mid-term and final award (semi-annual and annual) fee evaluation periods.

3.5.3 Notify AFRB members of when and what required reports/briefings are due.

3.5.4 Record and distribute minutes of the AFRB meetings.

3.5.5 Maintain and update the Award/Incentive Fee Plan as approved by the FDO.

3.5.6 Maintain the official Award/Incentive Fee files to include internal procedures and other documentation having a bearing on the FDO's decision.

3.5.7 Provide Award/Incentive Fee overview and training for new team members when training is needed.

3.5.8 Document and maintain AFRB activities in official files.

3.5.9 Perform other duties as assigned by the AFRB Chairperson, including notification and scheduling of any advisory personnel that may be needed by the AFRB.

3.6 Contracting Officer. The Contracting Officer will:

3.6.1 Act as the liaison between the (Contractor) and Government personnel.

3.6.2 Prepare FDO Award/Incentive Fee determination letter along with a description of (Contractor)'s performance, strengths, weaknesses, improvement areas, and expectations for future performance.

3.6.3 Execute changes to the contract that make changes to the Award/Incentive Fee Plan, the methodology in which any Award/Incentive Fee is determined and distributed, or changes to the Award/Incentive Fee pool available for Award/Incentive Fee consideration.

3.7 Integrated Process Team (IPT) and IPT Lead Responsibilities: The IPT organization is outlined in the (Program) Product Support Management Plan (PSMP) to be replaced by a Life-Cycle Management Plan. IPT Leads will be designated by the Government who will then designate IPT members to monitor and collect performance data, as required, to accomplish IPT tasks necessary to support the requirements of this plan and the (Program) Sustainment Surveillance Plan. IPTs will:

3.7.1 Be familiar with the contract requirements and this Award/Incentive Fee Plan and the (Program) Sustainment Surveillance Plan, especially the performance rating criteria for their IPT assigned evaluation area(s).

3.7.2 Conduct assessments according to contract requirements and the (Program) Sustainment Surveillance Plan, assuring evaluations are fair and accurate.

3.7.3 Maintain written records of (Contractor)'s performance, "performance report" in their IPT assigned evaluation area (s) that details specific examples where (1) improvement is necessary or desired; (2) improvement has occurred; and (3) performance is below, meets or exceeds contract requirements.

3.7.4 Review and coordinate evaluation reports prepared by AFRB recorder, for each period based on the processes outlined in the (Program) Surveillance Plan for their Award/Incentive Fee areas of evaluation.

3.7.5 Provide briefings and/or required reports to the Award/Incentive Fee Recorder in preparation for performance evaluations and Award/Incentive Fee determination.

3.7.6 Understand and monitor (Contractor)'s performance levels and the performance requirements necessary to achieve each level of performance as defined in Section 6.0, Award/Incentive Fee Evaluation Methodology.

3.7.7 Be prepared to brief the AFRB on their specific IPT assigned evaluation area(s).

3.7.8 Recommend changes to the Award/Incentive Fee Plan; e.g., Award/Incentive Fee pool reallocations, and criteria for weighting of performance areas, through the Award/Incentive Fee Recorder.

3.7.9 Maintain open, honest, and frequent communications between IPT members.

#### **4.0 AWARD/INCENTIVE FEE EVALUATION REQUIREMENTS**

4.1 The Award/Incentive Fee determination periods for FFP/AF will be semiannual. The specific evaluation period dates are shown in paragraph 7.0, Table 1. Award/Incentive Fee evaluation and determination will cover areas of emphasis which reflect the balanced approach desired in order to achieve the performance goals of the (Program) Sustainment Award/Incentive Fee Program.

4.2 The Award/Incentive Fee basis, being mostly objective in nature, will allow continuous monitoring of progress toward the performance levels associated with Award/Incentive Fees. Continuous evaluation of performance will serve to advise (Contractor) of trends indicating strengths and/or weaknesses that might result in increases or decreases of Award/Incentive Fee during evaluation periods.

4.3 All Award/Incentive Fee semi-annual periods, Mid Term and Final for each period, will include an evaluation of (Contractor)'s performance. The purpose of the performance evaluations is to jointly assess (Contractor)'s PBL performance during the period, identify strengths and improvements that occurred during the period, and recommend an appropriate Award/Incentive Fee to be paid to (Contractor), if justified.

4.4 For each evaluation period, the appropriate IPT Lead will prepare the appropriate performance and evaluation reports documenting (Contractor)'s performance and corresponding Award/Incentive Fee rating recommendation in accordance with the performance assessment methodology set forth in the (Program) Surveillance Plan.

4.5 Performance assessment results and supporting rationale will be reviewed, integrated, and compiled by the AFRB Chair, who will then develop and forward overall recommended to the FDO for use in determining Award/Incentive Fee(s).

4.6 (Contractor) shall be provided the results of these recommendations along with supporting material at least 5 business days prior to the FDO convening an Award/Incentive Fee board. (Contractor) shall be provided an opportunity to address any ratings to the Award/Incentive Fee board.

#### **5.0 EVALUATION PROCESS**

5.1 Fourteen (14) days prior to the end of the evaluation period the Award/Incentive Fee Recorder will establish a schedule for each required evaluation process step and notify the IPT Leads, and AFRB Members of the upcoming Award/Incentive Fee process requirements.

5.2 IPT Leads will submit an IPT coordinated performance assessment of each area of emphasis to the Award/Incentive Fee Recorder. The assessment will be prepared

cooperatively by the IPT for the area and reflect a recommended rating and areas of improvement for each area of emphasis.

5.3 The Award/Incentive Fee Recorder will compile an evaluation report with recommended Award/Incentive Fee for review by the IPT Leads. An IPT Lead assessment briefing based on the evaluation report will be prepared for review with the IPT members not later than twenty (20) days after the close of the evaluation periods.

5.4 Not later than twenty-five (25) days after the evaluation periods, the IPT Lead will present the assessment briefing to the AFRB.

5.5 The Award/Incentive Fee Recorder will record AFRB discussions and deliberations in detailed minutes. These minutes, when combined with the briefings, will provide a clear and concise record of the events leading to the FDO decision. The minutes and briefings comprise the official file to provide the support necessary to substantiate the Award/Incentive Fee decision. The Award/Incentive Fee assessments and recommendations proposed to the FDO will be shared with (Contractor) at least five (5) business days prior to the presentation to the FDO.

5.6 Not more than thirty-five (35) days after the evaluation periods, the AFRB Chair will present the Government's assessment of strengths, improvement areas, and recommended ratings to the FDO. (Contractor), at their discretion, shall be given an opportunity to present additional pertinent information concerning the recommended ratings to the FDO.

5.7 The FDO makes the final determination and awards the appropriate fee no later than forty-five (45) days after the evaluation period. The FDO through the CO will notify (Contractor) in writing of the Award/Incentive Fee earned and will provide an evaluation of (Contractor)'s performance.

5.8 The FDO will authorize the Contracting Officer (CO) to award the determined fee. The CO will issue a unilateral contract modification for the payment of the Award/Incentive Fee to (Contractor) within fifteen (15) working days after receiving authorization from the FDO. The goal is to have the Award/Incentive Fee payment to (Contractor) sixty (60) days from the end of the period.

5.9 The AFRB Chairperson may discuss with (Contractor), at an executive level, the decision of the FDO. However, the determination is a unilateral decision made solely at the discretion of the Government.

## **6.0 AWARD/INCENTIVE FEE EVALUATION METHODOLOGY**

6.1 Objective and subjective assessments will be used to evaluate (Contractor)'s overall performance and corresponding Award/Incentive Fee during each evaluation period. The Award/Incentive Fee criteria have been structured to achieve the performance-based objectives listed in paragraph 1.1. The Award/Incentive Fee Pool will be funded from two sources. The first source will be from withheld profits from the negotiated prices from those CLINs subject to Award/Incentive Fee. The second source will be independent funds equal in amount to the cumulative amount of profit withheld. Once the available Award/Incentive Fee pool for the period of performance is identified, 50% of the pool will be considered available for award commensurate with the mid-term evaluation with the remaining amount available for the final period.

## Withheld Profit + Incentive Funds = Award/Incentive Fee Pool

6.2 Technical Performance. Technical performance will be evaluated objectively utilizing the performance Award/Incentive Fee framework illustrated in Table 1 of Attachment X of the Contract, Surveillance Plan.

6.2.1 Under the FFP/AF PBL criteria, (Contractor) will be required to perform to the minimum “Threshold” requirement to be awarded their profit withhold portion of the contract. Performance that falls below the “Threshold” requirement will result a lower Award Fee which equates to a reduction in profit.

6.2.2 Calculation of the Government ratings will be an average calculation using monthly metrics results to determine the average. Award/Incentive Fee percentages for performance are outlined in the (Program) Surveillance Plan. Award/Incentive Fee determination ranges from 0 to 100%.

6.2.3 The specific details for the method in which the actual performance is determined is set forth in the (Program) Surveillance Plan. (Contractor)’s actual performance in each period will be compared to the specific performance measures set forth in the PWS document.

6.2.4 Prior to the beginning of each contract period, the Contracting Officer will issue a bilateral modification to the contract to update the FFP/AF Conversion Table based on changes to the PWS. This table will include the entire range of potential Award/Incentive Fee(s) that can be earned meeting and/or exceeding the performance requirements set forth in the PWS and in accordance with the Surveillance Plan formulas.

6.3 Firm Fixed Price Award/Incentive Fee Performance: FFP/AF will be evaluated utilizing the performance Award/Incentive Fee framework illustrated in Table 1 of the Surveillance Plan.

### 7.0 AWARD/INCENTIVE FEE PERIODS

7.1 Table 1 identifies the evaluation periods and corresponding Award/Incentive Fee pools for the FFP portion of the contract. All Award/Incentive Fee periods will be six (6) months in duration. There will be a mid-term award and final award for each one (1) year contract period of (Contractor)’s performance. The calculation used for the Award/Incentive Fee will be the cumulative average of the monthly performance figures for the Award/Incentive Fee period.

PERIOD	TOTAL*	MID TERM	FINAL
1	\$TBD	01 Feb 0X – 31 Jul 0X**	
2	\$TBD		01 Aug 0X – 31 Jan 0X
3	\$TBD	01 Feb 0X – 31 Jul 0X	
4	\$TBD		01 Aug 0X – 31 Jan 0X
<b>TOTAL</b>	<b>\$</b>		

## **Table 1. FFP/AF Schedule**

\*Reflects the total Award/Incentive Fee pool for the respective periods. These total amounts will be segregated in the contract by the type of appropriation required to fund the associated requirements. There are no rollover provisions for the Award/Incentive Fee pool.

\*\* As noted in the (Program) Surveillance Plan the initial rating period for Sustaining Engineering will not begin until 1 April 200X.

### **8.0 CHANGES AND/OR MODIFICATIONS TO AWARD/INCENTIVE FEE PLAN**

8.1 Changes to the Plan: The Government reserves the right to unilaterally change the Award/Incentive Fee evaluation methodology, areas of emphasis and/or their respective weighting, period of evaluation, distribution of remaining Award/Incentive Fee, individual metrics, and other matters covered in this plan. Any changes to the individual metrics will ensure the responsibility for performance remains within the Contractor's scope of control. The method of implementation, method of calculating changes to any newly developed metrics, and any associated equitable adjustment as the result of changes to this plan, will be subject to agreement between the Parties and accomplished by means of a bilateral modification. The bilateral modification will take effect on the date the modification is issued unless stated otherwise.

8.2 Either the Government or (Contractor) may propose changes to the Award/Incentive Fee Plan prior to the next Award/Incentive Fee evaluation period. Suggested changes not accepted should be briefed to the FDO and rationale for non-acceptance explained. Submittals should be made in time to allow for review, comment, and contract modification, if appropriate.

8.3 Method for Making Changes: Proposed changes will be submitted to the Award/Incentive Fee Recorder for presentation to the IPT Leads and the AFRB. Recommended changes to the Award/Incentive Fee Plan will be coordinated by the IPT Leads and presented to the AFRB for coordination/approval. Changes will be submitted to the FDO for approval. Once approved, the contracting officer will submit a modification to (Contractor) to implement the approved changes

8.4 Annual Review. An annual Government and (Contractor) review of the Performance Measures will be conducted to determine if the performance award process is accomplishing the desired overall PBL customer support objectives. This review will tentatively be conducted in the third (3<sup>rd</sup>) quarter of each Period of Performance of the contract. Any changes to the Performance Measures and /or processes will be accomplished by bilateral modification, through the previously described process.

### **9.0 AWARD/INCENTIVE FEE PAYMENT**

9.1 Award/Incentive Fee is not subject to the "Allowable Cost and Payment" clause of this contract. However, (Contractor) shall be entitled to Award/Incentive Fee as a prorated share of any work completed if this contract is terminated for convenience.

(Annex A)

**AWARD/INCENTIVE FEE ORGANIZATION**

Fee Determining Official (FDO) (TBD)

The AFRB is composed of the following:

AFRB Chairperson (TBD)

AFRB Members

(TBD)

Award/Incentive Fee Recorder: (TBD)

Performance Monitors: IPT members identified in the (Program) Surveillance Plan Performance Monitors are not AFRB Members.