DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
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WASHINGTON DC 20350-1000

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MEMORANDUM FOR DISTRIBUTION

SUBJECT: Service Requirements Review Board Guidance

Enclosure: (1) Service Requirements Review Board Guidance

This memorandum establishes Service Requirements Review Board Guidance, provided in Enclosure (1).

The guidance is provide a broad framework within which each activity can develop an appropriate review process to assess risk for possible contracts fraud and to facilitate meaningful discussions about services requirements, processes, contracting and management. These reviews include, but are not limited to questions regarding what is being bought, how much it costs, what the benefits/risks are in methodologies, and whether to continue with the same methodology, etc.

The guidance is based on capture and translation of issues identified during early reviews. While the guidance is designed to provide, and encourages, maximum flexibility, the Office of the Deputy Assistant Secretary of the Navy for Acquisition and Procurement (DASN(AP)) wants to capture enough specific, pertinent information to support policy decisions across the enterprise. While initial reviews have taken on a "current state" evaluation, my office, in conjunction with the financial and workforce communities, plans to iteratively develop the reviews to look ahead and validate future requirements and the impact to manpower, financial and acquisition.

Questions or inputs on this matter can be provided directly to me at kenneth.brennan@navy.mil or (703) 693-1167.

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Service Requirements Review Board Guidance

I. Purpose: To establish a uniform guidance regarding process(es) to identify, validate, assess, plan, and monitor service acquisitions across the Department of Navy (DON), ensuring accountability of all DON portfolio service acquisition requirements. The process is to provide focus on optimizing and validating current and future Service Acquisition requirements spend and on management of contracted services in the constrained fiscal environment.

II. Scope or Mission: Development of a DON-wide capability for standardized review across all services acquisitions.

III. Focus: DON has developed a Services Requirements Review that will focus on none key areas:

1. Requirements Definition - Have the requirements been clearly defined?
2. Requirements Validation - Is this a valid requirement?
3. Market Research - Did the government conduct market research and consult with industry experts to determine best practices for the requirement and identify opportunities for small business participation at the prime and subcontractor levels?
4. Contract Administration - How are we monitoring contract performance?
5. Competition - What is the extent of competition?
6. Contract Type - Is it risk-appropriate to the services we need?
7. Spend - How much are we spending on each part of the contract (labor, ODCs, etc.) and what is the highest labor rate in the contract?
8. Tripwires - Are there breaches to threshold metrics that warrant further explanation?
9. Contracting Activity - Does the contracting activity have authority to make the procurement for the requiring activity?

The process will focus on validating, optimizing, and reducing current DON service acquisitions while seeking and exporting best business practices. In addition to those cited above, questions to be asked include, but are not limited to: Does the requirement encompass an inherently governmental position? What analysis was done to determine the best way to accomplish the service ("buy vs. employing organic resources")? How was it decided that the most cost effective and beneficial way to meet this service requirement was through a contract? What can be done to maximize opportunities for small business participation now and in the future? The attached Appendix provides some basic questions and concerns to consider during the review process.

IV. Review Chair: Reviews shall be chaired at a level consistent with responsibility and ownership of all requirements. Recommend review at the Budget Submitting Office (BSO) level. For Field Contracting Activities, the Head of the Contracting Activity shall coordinate with supported BSOs and document the level of review authority.

V. Review Participants: Review Chair may specify the level of participation as deemed appropriate. Every review may be different due to the size and the scope of the requirement. DASN(AP) recommends reviews include representatives of all major stakeholders (i.e., at a minimum; customer (Program Manager), owner (Program Executive Officer or appropriate supervisor), Financial, Contracting,). Others stakeholders (Legal, Manpower, Corporate Operations, and Small Business etc.) are encouraged to be included at the Review Chair's discretion. Participants shall be responsible for answering questions in relation to their services acquisitions, and responding to actions directed by the Service Requirements Review Board. Meeting minutes and action items shall be recorded and submitted to DASN (AP).

VI. Periodicity: While Services Requirements Reviews shall be accomplished no less than annually, it is recommended that reviews be conducted at least every six months. These reviews can support contract requirements forecasting and budget development/execution reviews.

The initial Services Requirements Review shall be a discovery session to identify issues and action items for further research or correction. Action items identified during the initial session shall be corrected and re-evaluated within 120 days. If correction of action items is not feasible within 120 days, a POA&M for the corrections shall be developed and submitted to DASN (AP).

VII. Guidelines: All services contracts will be reviewed in the Services Requirements Review. DASN (AP) will request review information as part of the annual Services Acquisition Health Assessments to help identify trends, and may request specific contracts be reviewed by Naval Audit Service. The requested review information includes the Final Analysis spread sheet, Services Requirements Review meeting minutes and action items resulting from the Services Requirements Review. DASN (AP) will spot check contracts during the Health Assessments.

VIII. Final Analysis: The attached Final Analysis Excel file shall be included in the review and shall include: total spend, strategic sourcing opportunities, assessment of inherently (or closely related to) governmental functions, inappropriate personal services, multiple or single award, period of performance, market research, extent competed, number of offers received, type of set aside, Contracting Officer's business size selection, type of contract, action obligation, base and exercised options value, base and all options value, subcontracting percentages, and labor rates. Additional metrics may be added as needed. Upon completion of each Service Requirements Review Board, the completed spreadsheet, meeting minutes and resultant action items shall be forwarded to the Senior Services Manager (SSM) within 30 days.

Appendix: Potential Issues and Questions to consider for Reviews

1. Requirements Definition

   - Is the requirement valid?
   - Is the requirement clearly defined?
   - Does the requirement encompass an inherently governmental, or closely related to inherently governmental position?
   - Is the requirement defined as a Performance Based Statement of Work?
   - Are all stakeholders (requirements personnel, contracting personnel, finance personnel, end user, etc.) involved in the acquisition process from the beginning?
   - Is the Seven Steps to Performance-Based Acquisition process being utilized?

2. Requirements Validation

   - Peer Reviews – Were they performed IAW policy?
   - Management and Oversight Process for the Acquisition of Services (MOPAS) Approvals – Was it completed (or in process for future requirements) satisfactorily IAW policy?
   - Service Acquisition Workshop – Shall / will a workshop be performed on this requirement? What were the issues considered and what were the outcomes if one was completed?

3. Market Research

   - Did the Government research the market and consult with industry experts to gain an understanding of such things as the cost drivers, current economic conditions specific to the industry, the supply chain and industry acquisition practices in order to develop better requirements and potentially increase negotiating leverage?
   - Have suppliers / strategic sources been reviewed?
   - Has Central Contractor Registration occurred?
   - Have Contractor Performance Assessment Reviews (CPARS) been completed / reviewed?
   - Are the CPARS meaningful?
   - What is the appropriate Past Performance Information?
   - How many suppliers / contractors are available to meet this requirement?

4. Contract Administration

   - Is this a short-term or an enduring requirement?
   - How long has this requirement been under contract (lifetime)?
   - What is the long term plan to meet this requirement?
   - Does the resultant contract action correspond to the forecasted requirement?
   - Is the Contracting Officer's Representative (COR) qualified?
   - Is the COR certified?

- Is the COR appointed?
- Is the COR full-time or part time?
- Is the COR located at the performance location?
- Is the COR and contract registered in the CORT Tool?
- Is the COR actively managing the contract?

5. Competition

- Is the appropriate contracting organization procuring the requirement?
- Have strategic sourcing vehicles been considered?
- Is/will this be a multiple or single award?
- What is/will be the extent competed?
- Number of offers received?
- What is the Contracting Officer's business size selection?

6. Contract Type

- Contract type selection is the principal method of allocating risk between the Government and the contractor. There is no single contract type that is right for every contracting situation. Selection must be made on a case-by-case basis considering contract risk, incentives for contractor performance, and other factors such as the adequacy of the contractor's accounting system. The objective is to select a contract type that will result in reasonable governmental risk with the greatest potential for efficient and economical contract performance. Selecting the proper contract type will make the work more attractive to more potential offerors, thereby increasing competition.

  - Is the contract type appropriate for the requirement and associated risk?
  - Is it possible, based on maturity of the requirement, commercial availability, contracting vehicle, or other factors, to move to a lower risk contract type?
  - Is the contractor incentivized appropriately?

- 6.1 Fixed-Price: Under a fixed-price contract, the contractor agrees to deliver the product or service required at a price not in excess of the agreed-to maximum. Fixed-price contracts shall be used when the contract risk is relatively low, or defined within acceptable limits, and the contractor and the Government can reasonably agree on a maximum price. Contract types in this category include:

  - Firm fixed-price (FFP)
  - Fixed-price economic price adjustment (FPEPA)
  - Fixed-price award-fee (FPAF)
  - Fixed-price incentive firm (FPIF)
  - Fixed-price incentive with successive targets (FPIS)
  - Fixed-price contract with prospective price redetermination (FPRP)
  - Fixed-ceiling-price contract with retroactive price redetermination (FPRR)
  - Firm fixed-price level of effort term contract (FFPLOE)

- 6.2 Cost-Reimbursement: Under a cost-reimbursement contract, the contractor agrees to provide its best effort to complete the required contract effort. Cost-reimbursement contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts include an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor cannot exceed (except at its own risk) without the approval of the contracting officer. Contract types in this category include:

    - Cost Reimbursement (CR)
    - Cost-sharing (CS)
    - Cost-plus-fixed-fee (CPFF)
    - Cost-plus-award-fee (CPAF)
    - Cost-plus-incentive-fee (CPIF)

- 6.3 Labor-Hour and Time-and-Materials: There are two other types of compensation arrangements that do not completely fit the mold of either fixed-price or cost-reimbursement contracts. Labor-hour and time-and-materials contracts both include fixed labor rates but only estimates of the hours required to complete the contract.

7. Spend

- What is/are the annual obligation(s)?
- What is the value of the base and exercised options?
- What is the value of the base and all options?
- What are the subcontracting percentages?
- Are labor rates consistent with the market?
- What is the average labor rate?
- What is the number of Full Time Equivalents (FTE)?
- Does the contract include incremental funding? What is the periodicity of the incremental funding?

8. Consideration of "Trip Wires". Tripwires are threshold metrics that warrant further explanation to ensure the proper attention and decision making rigor are present for specific actions. The tripwires presented here are recommended thresholds that may be tightened at the Reviewing Chair's discretion.

- 8.1 Labor Rates and Performance

    - When proposed or executed fully burdened labor rates are in excess of $300k/year in any labor category, the reviewer shall inquire about the decision process and justification of those rates. It is possible that due to technical scarcity, risk, or other business issue that the rates may be appropriate. The justification of the rates shall satisfy the Review Chair as appropriate, or be revisited by the requirements team.

- Additionally, for pre-award actions exceeding the tripwire, the procuring contracting officer (PCO) will ensure the Source Selection Authority (SSA) is aware of the actual rate. The SSA shall address these rates with the cost & technical teams and document analysis of this issue within the Best Value Determination (BVD).

- The review shall also monitor monthly actual average spend rates compared to average bid rate averages. Any variation of actual-to-bid rate averages >10% requires discussion / justification at the Review.

- 8.2 Use of Subcontractor(s) - Each review shall assess use of subcontractors.

  - Is the use of a subcontractor(s) appropriate to the requirement?
  - What is the pass-through cost of the prime? Is it appropriate?
  - Is the prime doing work on the requirement?
  - Is the contract a vehicle of convenience to reach a desired subcontractor?
  - Overall, would the government be better served (regarding cost, schedule and performance) to contract directly with the subcontractor?

- 8.3 One bid procurement (Effective Competition)
  - How many offers or quotes were received regarding the requirement? Is that an appropriate number?
  - Can the competition be improved by: Defining the requirement more clearly? Increasing solicitation times? Other process changes?
  - Did existing one-bids adhere to Better Buying Power policy regarding re-advertisement and negotiation (as appropriate)?

- 8.4 Other Direct Costs (OCDs) to include travel and incidental miscellaneous materials required in performance of the service.

  - If ODCs are estimated > 10% of the total labor value or $3M (whichever is lower) for any given contract year, then the review shall address the rationale and justification.

  - When ODCs are comprised of material items, review shall request rationale and justification as to why these costs are not specifically defined and managed as supply items under a separate contract.

- 8.5 Bridge Contracts – the non-competitive continuation of a requirement

  - Review shall explore the cause, rationale and justification of all bridge contracts.

- Review shall address corrective actions on current bridge contracts and include provisions to ensure future bridges do not occur.
- ASN(RDA) is staffing additional policy on bridge contracts SEPCOR.

- 8.6 Best Value Source Selection Premium > 10%. Best Value is a function of technical quality and cost trade-offs among competing proposals. Best Value determinations are not made through mechanical calculations. As technical proposals approach equality, cost becomes a more significant factor. While not impermissible, 10% or greater premiums over lowest acceptable offeror's Total Evaluated Cost/Price shall be evaluated for rationale, justification and appropriateness.