

Headquarters U.S. Air Force

Integrity - Service - Excellence

Incentives Update **For the OSD Procurement Conference** ***Contractual Incentives Workshop***



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- AF effort is really about Proposal Cost Realism and Effective Contract Execution

- Dr Sambur:

“...the costs of the average acquisition program balloon by about 30%, and the time required to complete it is about 10 years...”

“...the current system often produces a poor correlation between award fees and ultimate performance...”

- AF Goals:
 1. Realistic cost proposals
 2. Control costs during contract execution
 3. Incentivize excellent performance



The Road Behind Us



- SAF/AQ Incentive Concepts based on:
 - Base Fee for Unallowables
 - Exceptional Fee for Excellent Performance
 - Lose Fee for Poor Performance
- SAF/AQ held multiple meetings with Industry for Ideas and Feedback
- Mutual Conclusion: There is no one answer but there are tenets...
 - *Realistic* cost development for “offer” difficult for Contractor & Govt
 - Use spiral development to mitigate risk
 - Improve government/contractor partnership
 - Incentive approaches should be tailored to the acquisition—focused and balanced

Proposal Cost Realism

Effective Execution



- Focus on: Cost Realism and Effective Execution
 - The further the cost proposal is from the Govt estimate, the riskier the proposal and execution

- Approach:
 - Improve Cost Proposal Realism  *Cost Proposal Risk Evaluation*
 - Improve Govt Cost Estimating Process/Resources  *FMC IPT*
 - Budget to Realistic Cost  *Will be tough to do!*
 - Incentivize Contractor Performance to Cost  *More effective with above*
 - Encourage Base Fee
 - Encourage focused Incentives to Performance
 - Enforce Appropriate Fee Determinations
 - Encourage Fee loss when costs rise above Realistic Cost

- Lot's More Work Before Further Policy Refinement