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SEP 21 2004

ACQ FYI 04-027

MEMORANDUM FOR DISTRIBUTION

Subj: REQUIREMENTS FOR SERVICE CONTRACTS

Ref: (a) DoDIG report D-2004-015 "Contracts for Professional, Administrative, and Management Support Services" of October 30, 2003

Encl: (1) Director, Defense Procurement and Acquisition Policy memorandum of September 13, 2004

As a result of recommendations in reference (a), OUSD(AT&L) issued the enclosed guidance on assignment of contracting officer representatives and type of contract considerations.

Enclosure (1) stresses that the need for increased vigilance and government oversight should be considered while developing the acquisition strategy for service requirements. Program offices should designate individuals familiar with the requirement to assist with contract oversight as appointed Contracting Officer Representatives under DFARS 201.602-2.

Enclosure (1) also indicates that personnel developing service requirements on other than a fixed-price basis, especially follow-on efforts, should work with the contracting officer to determine whether it is appropriate to break out any effort to be acquired on a fixed price basis. While fixed price contracts have certain advantages, they may not always be appropriate. DoN contracting officers will make the type of contract decision based on FAR Part 16 and the circumstances of the specific requirement.

Your questions or comments may be addressed to Bob Johnson at ROBERT.F.JOHNSON@NAVY.MIL or 703-693-2936.

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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

September 13, 2004

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY (POLICY AND PROCUREMENT), ASA (ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY (ACQUISITION MANAGEMENT), ASN (RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (CONTRACTING), SAF/AQC
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, ARMY CONTRACTING AGENCY
DEPUTY DIRECTOR FOR LOGISTICS OPERATIONS (DLA)
DIRECTORS, DEFENSE AGENCIES

SUBJECT: Requirements for Service Contracts

Contracts for services awarded on a cost-reimbursement or time and materials (T&M) basis usually require significant government vigilance during contract performance to ensure the government receives good value. This memorandum provides guidance on the assignment of contracting officer representatives, as well as the need for revisiting the contract type before reissuing such contracts. The need for this guidance was specified in a recent Department of Defense Inspector General review on "Contracts for Professional, Administrative, and Management Support Services" (DoDIG Report D-2004-015, October 30, 2003).

You should consider the need for increased vigilance and government oversight during the acquisition planning phase of contracts for services that are planned to be issued on a cost-reimbursement or T&M basis. To assist with contract oversight on such contracts, you should appoint contracting officer representatives (COR). Any such appointments must be done in writing in accordance with Defense Federal Acquisition Regulation Supplement (DFARS) 201.602-2. Some specific tasks for CORs on T&M contracts would be to verify the appropriateness of the categories of labor used, and the reasonableness of the number of hours worked and materials used.

When personnel prepare the requirements for a follow-on contract to an existing cost-reimbursement or T&M contract for services, they should work with the contracting officer to determine if any portion can be broken out and ordered on a fixed-price basis. The experience gained on the prior contract may serve as a basis to reasonably price

ENCLOSURE (1) to DASN(ACQ) memo
"Requirements for Service Contracts"
September 21, 2004

similar future efforts on a fixed price basis. Finally, there is a statutory preference for the use of performance based specifications, which clearly define desired outcomes, as an additional step that facilitates using fixed-price contracts. Fixed-price contracts result in significant cost savings and efficiencies for the Department, including the need for less oversight.

If you have any questions on this matter, please contact Mr. William C. Timperley at william.timperley@osd.mil, telephone (703) 697-8336.

Deidre Lee
Director, Defense Procurement
and Acquisition Policy