

IDIQ CONTRACTS--BEST PRACTICES FOR FIPS

IDIQ CONTRACTS Guide to Best Practices for Federal Information Processing (FIP) Resources GSA
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FORWARD

The General Services Administration (GSA) is issuing this guide to assist Federal agencies which are anticipating using Indefinite-Delivery Indefinite-Quantity (IDIQ) contracts for Federal Information Processing (FIP) resources. This guide is not a regulation. It should be used in conjunction with existing regulations. This guide was prepared by Askold Boretsky of the Office of Federal Information Resources Management of the Information Resources Management Service (IRMS). Judy Steele of the IRMS Regulations Analysis Division provided valuable help in researching agency experiences with IDIQ contracts. Many Federal agencies and individuals identified best practices. Special thanks go to the following individuals who provided practical suggestions that contributed in a significant way to the preparation of this guide: Robert T. Barnhart Charles Mather Thomas W. McQueen Don Page Carl J. Peckinpaugh Valerie Wallick Virginia L. Wydler To obtain copies of this document, please refer to publication KAP-93-3-P and contact the: General Services Administration Information Resources Management Service IRM Reference Center (KAL) Washington, DC 20405 (202) 501-4860

TABLE OF CONTENTS

Introduction What Are IDIQ Contracts Purpose of This Guide Planning and Acquisition Obtain Management Commitment Early Select a Strategy That Leads to Simpler Acquisitions Base the Acquisition Strategy on Market Research Ensure the Components, Systems, and Contracts Work Together Include Contract Administration in the Acquisition Plan Managing IDIQ Contracts Use a Program Office Designate Contracting Officer's Technical Representative (COTRs) Early Ensure Continuity in Key Government Personnel Establish a Change Control Process Defining Contract Scope Contract Scope Contract Minimums Contract Maximums Authorized Organizations Profiles of Needs Contractor Support Requirements Setting Contract Duration Contract Duration Examples When Long Contract Terms May Apply The Solicitation and Proposal Evaluation Solicitations Evaluations Technology Refreshment Contract Pricing Contract Pricing Considerations Price Analysis Risk Allocation Contract Administration Contract Administration Ordering Systems Contract Management Information Systems Contract Modifications Analyzing Proposed Modifications Documentation Notifications Option Year Renewal and Contract Close-out Option Year Contract Renewals Contract Close-out

Introduction

What Are IDIQ Contracts?

Indefinite-Delivery Indefinite-Quantity (IDIQ) contracts allow the Government to place orders, within pre-determined limits, for products or services as needs arise. IDIQ contracts provide a common vehicle for many of the Government's major contracting programs for Federal Information Processing (FIP) resources including computer equipment, software, telecommunications, support services, maintenance, and related resources. Frequently, such contracts provide computer and telecommunications systems and services to support common needs within a single agency or for several agencies. IDIQ contracts are necessary and have no viable alternatives because they provide a contractual means to satisfy changing needs. Starting a new procurement each time a Government organization's needs change is usually not feasible or desirable. The lead time for a new procurement

is typically measured in years while the need to respond to a requirement may be measured in weeks or months. In addition, IDIQ contracts offer an efficient way of doing business because the costs to execute a delivery order under an IDIQ contract are much lower than the costs to start a new procurement or modify an existing contract when needs arise. IDIQ contracts may be used for a wide variety of situations when the quantities of products or services and delivery schedule cannot be determined at contract award. If quantities and delivery schedule can be determined, then a definite quantity contract should be used.

Purpose of This Guide

Problems with large long-term IDIQ contracts arise because the marketplace for FIP resources is dynamic and competitive. New technology is constantly offered that can improve performance and result in cost savings. Competition continually results in lower prices. Excessively large long-term IDIQ contracts frequently result in high prices in the out-years and fail to live up to the expectations of both the agency and the contractor. When users do not order from the contract, the agency suffers a high opportunity cost. The purpose of this guide is to help agencies keep IDIQ contracts in sync with technology and price changes in the marketplace. Each chapter in this guide deals with a specific phase in the contract process from planning an acquisition to contract close-out. This guide should be used in conjunction with the April 1992, "IDIQ and Requirements Contracts: Lessons Learned," pamphlet which provides examples of agency experiences. This guide provides further assistance to agencies in successfully planning and administering IDIQ contracts. Use of the lessons learned pamphlet and the best practices guide will result in savings to the Government, lower costs to industry, and improved productivity and performance. Some of the practices presented are applicable to other contract types. They are included here because of specific problems identified in some IDIQ contracts. This overall guidance also applies to indefinite-delivery requirements-type contracts with a few exceptions: a requirements contract need not specify a contract minimum and estimated quantities are stated instead of contract maximums. This publication is not a regulation. It should be used in conjunction with the Federal Acquisition Regulation (FAR) and the Federal Information Resources Management Regulation (FIRMR). Best practices should be considered in agency procurement requests but will vary according to the circumstances of specific acquisitions.

Planning An Acquisition

Obtain Management Commitment Early

Planning and awarding an IDIQ contract for FIP resources can take as long as a couple of years. The length of time depends on management commitment and the skills and experience of those responsible for the acquisition as well as the acquisition strategy selected. Get management commitment up-front by using an acquisition strategy panel of senior program, technical, and contracting managers to establish the goals for costs, quality, capabilities, performance, and schedule. Commit the right resources and spend adequate time in planning the acquisition to ensure success. The size and complexity of the procurement determines the type of skills and experience required of the acquisition team.

Select a Strategy That Leads to Simpler Acquisitions

Agencies can make choices which lead to simpler acquisitions. One way to simplify and shorten long procurement cycles is to avoid "kitchen sink" or "platform" contracts that try to satisfy all FIP needs for an agency. They are invariably too large and lengthy. They are difficult to award and agencies are reluctant to go through the acquisition process for them frequently. The alternative is to develop an acquisition strategy that leads to a "family" of IDIQ contracts "multiple hardware, software, and services acquisitions tailored for particular needs providing users with the ability to order from alternative contracts. Major benefits from establishing a "family" of contracts are increased competition and greater flexibility. A greater number of firms can compete for a larger number of contracts. Not all

FIP resources for the agency are tied to a single acquisition. Competition can be introduced after contract award if users can order from alternative contracts. Also, better prices can result if the contracts focus on a single industry or market niche and avoid straddling markets.

Base the Acquisition Strategy on Market Research

On-going market research helps to improve the effectiveness of IDIQ contracts. In planning an acquisition, market research helps identify the availability of products, services, and market practices that can affect acquisition costs. Continuing market research after contract award enables the contract administrator to evaluate the advantages of proposed changes. Assign staff to perform market research who have acquisition skills and market-specific experience. Over time, the staff responsible for market research plays an important role in information resources management. For complex acquisitions, the in-house research can be augmented by market research performed under contract. Agencies administering large IDIQ contracts can provide a valuable government-wide service by making key information widely available to other agencies' contracting officers. Using electronic bulletin board systems, agencies can communicate valuable contract information to a large number of other agencies. Small agencies should work closely with large agencies in researching the market. Market research typically includes the following sources of information:

- o Contract files Analyzing the ordering history of similar contracts helps to determine potential sources, products, quantities, production and delivery rates, prices, and costs for maintenance, repairs, and support.
- o Technical literature Reviewing commercial product descriptions helps to determine generally available quality, performance, and reliability characteristics; compatibility requirements; and elements that may restrict competition such as features offered by only one vendor.
- o Price catalogs Examining price lists, catalogs, and GSA schedules helps to determine competitive prices and discounts.
- o Training Using commercial products provides first-hand experience.
- o Technical discussions Fact-finding interviews with Government and commercial customers provide a context for any other reviews.
- o Trade shows Multi-vendor expositions provide the opportunity to obtain broad exposure to the market.
- o Plant visits Plant visits to multiple manufacturers, if carefully planned to maintain procurement integrity, can help identify technical, scheduling, reporting, quality assurance, and packaging requirements.
- o Industry comments Requests for Information, Requests for Comments, draft Requests for Proposals, pre-solicitation briefings, and pre-proposal conferences help provide specific feedback on acquisition plans. Using electronic bulletin boards speeds receipt of comments and preserves anonymity.
- o Schedules Information from GSA multiple award schedules should also be reviewed in gathering market information. Document the results of market research in a memorandum or report which supports the acquisition strategy. In performing market research, agency personnel must treat all potential vendors fairly and impartially. FIRMR Bulletin C-32, "Vendor provided Federal information processing (FIP) training," contains guidance applicable to conducting market research.

Ensure the Components, Systems, and Contracts Work Together

When awarding a "family" of IDIQ contracts, agencies must ensure that components, systems, and contracts intended to work together do so. Compatibility among FIP resources is addressed through acquisition planning, market research, and systems integration activities. Systems integration activities include identifying interfaces among components of the solution, defining applicable standards, and testing or demonstrating the interoperability among products. To perform systems integration activities, agencies can contract for systems integration services or use in-house technical personnel. If contracts for systems integration are used, then the agency should keep the contracts in sync with market prices by either separately identifying the service from the product costs, or contracting for systems integration services under a separate contract. If in-house personnel are used for systems integration, then the agency should ensure that personnel position descriptions include systems integration responsibilities and the means exist within the in-house organization to obtain and test products from the marketplace. Ensuring that products work together also imposes duties on the contractors and the government. The contractors have a duty to work together to the extent that their products interface with other parts of the solution. This duty extends beyond fault isolation and

requires the parties to deal with each other to ensure that the products intended to work together do so. The government has a duty to oversee integration, conduct tests, and be the referee as necessary.

Include Contract Administration in the Acquisition Plan

More effort is generally consumed in administering IDIQ contracts than in planning, solicitation, and award. Contract administration responsibilities for IDIQ contracts are typically complex because ordering and acceptance processes involve many parts of the organization. It is important that these responsibilities be defined in the acquisition plan and any technical, business, and management issues associated with administering the contract be resolved early. Early definition of these responsibilities also helps to ensure that contractor support requirements are specified in the solicitation as well as to provide sufficient lead time for any Government training and system development to support contract administration. IDIQ CONTRACTING LIFE CYCLE

Managing IDIQ Contacts

Use a Program Office

Awarding IDIQ contracts and managing the delivery order process is not a one-person job. The contracting officer must rely on a cadre of technical and contracting personnel for help. Successful contracts have personnel assigned with market-specific technical and acquisition experience and skills. When planning an IDIQ contract, agencies should use an existing Program Office or, if one does not exist or cannot be used, establish a new Program Office. Small or inexperienced agencies should consider working with an established Program Office in a mentor relationship to draw on expertise and experience in managing IDIQ contracts. A Program Office can manage a single contract or multiple contracts. The location and organization of the Program Office is a function of the particular agency's operating mode and requirements. The size of the Program Office depends on the size and number of contracts. The Program Office has responsibilities before and after contract award. Before award, the Program Office helps plan the acquisition, prepares the technical portions of the solicitation, and participates in the evaluation of proposals. After award, the Program Office can control the flow of orders to the contractor and monitor obligations against the total contract value. In some instances, the Program Office can also assure that agencies placing orders are ordering complete systems that will work together, and not ordering more than they need. For services contracts, the Program Office can review agency-prepared statements of work against contractual requirements. When specific expertise is required, the Program Office can delegate review functions to a reviewing office. When IDIQ contracts are used to satisfy multiple requirements, oversight of the Program Office at the agency level is key to their successful implementation and utilization. Oversight controls should be appropriate to the size and scope of the contracts. Within the Program Office, the program manager (or "trail boss," if assigned) is the designated single official responsible for technical direction and quality during the acquisition phase as well as during contract administration. Program managers have significant responsibilities before and after contract award. Effective program managers have the following qualifications:

- o Significant Federal management experience with FIP resources acquisition and budget policies and practices.
- o Adequate technical knowledge and experience for the types of FIP resources that are acquired.

Pre-award, the program manager's role includes preparing or coordinating requirements analyses and obtaining life cycle management approvals as well as preparing the technical portions of the solicitation. Post-award, the program manager's primary job is to manage the program within the requirements of law and regulations and under the terms and conditions of the contract. Effective program managers conduct a meeting with the contractor immediately after contract award to review expectations under the contract. Such meetings are also held when important changes occur, for example, when key personnel change. The program manager must understand how the technology affects users' needs and priorities and motivates change requests. Periodic forums with users help the program manager to identify technological trends and issues that are of concern to the users. Deputy program managers can be designated to act as liaisons to organizations authorized to

order under an IDIQ contract. For large contracts, use this management technique to establish a single point of contact for each organization's requirements, delivery order allocations, priorities, accountability, procedures, and records. Ensure that contracts having multiple levels of review also are responsive to user needs. For example, conduct reviews of orders at the lowest level and require higher management reviews of only large dollar value orders.

Designate Contracting Officer's Technical Representatives (COTRs)

Early

COTRs are appointed by the contracting officer to ensure that the contractor meets contract requirements. They also provide technical assistance to users throughout the term of the contract. After an IDIQ contract is awarded, requirements analyses, statements of work for task orders, and procurement requests are usually prepared by users prior to execution of individual delivery orders. COTRs can prepare or help users to prepare these documents. Following delivery, COTRs can act as the accepting official for delivered items. The number of COTRs depends on the size of the contract. Large IDIQ contracts will typically have a lead COTR in the Program Office and COTRs at each user's site or at the contractor's plant or work site involved in contract administration. Agencies placing orders can also designate COTRs to perform duties on individual orders. GSA has prepared, *A Guide for Contracting Officers' Technical Representatives*, May 1991, to explain their roles, responsibilities, and authorities. Training COTRs prior to contract award is important for ensuring timely processing of delivery orders. The type of training is a function of the type of contract: different training is required for writing statements of work than ordering equipment. The COTRs' performance objectives should reflect his or her roles, responsibilities, and authorities so that management recognizes the importance of performance of these duties. Requirements coordinators can also be designated. These technical management personnel assist the COTRs by working directly with users in preparing requirements analyses and procurement requests during contract administration.

Ensure Continuity in Key Government Personnel

To facilitate consistent contract administration and interpretation of requirements, ensure continuity in key government personnel. For example, when a change of contracting officers is anticipated at contract award, have the successor contracting officer participate, at a minimum, in an advisory role in the source selection. Specify procedures for reassignment of key government personnel. Good procedures include documenting program status and obtaining concurrence by incoming personnel on program status as documented. If the contracting officer or key COTR changes, conduct a special meeting for the contractor to present a status report and review contract priorities and issues.

Establish a Change Control Process

Post-award decision-making usually involves reviews of proposed changes to the contract. This decision-making will frequently involve balancing user needs, validating analyses (including contract scope determinations), and revising budgets based on funding and priorities. Change control processes vary with the size and scope of the contract as well as the proposed change itself. At a minimum, the contracting officer should obtain input from technical personnel as well as the program manager who makes decisions regarding requirements. For large contracts, the process can include a permanent decision-making board whose members include the program manager, contracting officer, and organizations authorized to order under the contract. Boards can be set up with multiple tiers with different membership to review different types of changes. For example, while one level reviews changes that affect contract-wide technical standards, another level reviews proposed changes to specific items that can be ordered, e.g., substitutions or upgrades. Dollar thresholds can also be used to differentiate the levels.

Defining Contract Scope

Contract Scope

IDIQ contracts differ from other types of contracts because they require pre-determined minimum and maximum limits that establish the scope of the contract. Under an IDIQ contract, the Government is obligated only for the contract minimum. Contractors are obligated to deliver up to the contract maximum. The FAR requires that specific clauses concerning indefinite-quantity delivery, ordering, and delivery-order limitations be included in solicitations and contracts. The contract should allow with-in scope changes to be made easily during contract administration, as necessary. For example, the contracting officer should be able to substitute equipment or software that goes out-of-production after contract award, if it is advantageous for the government. However, the contract scope should also be definite; agencies should not try to write the contract scope so that it includes the ability to add any and all products or services after contract award.

Contract Minimums

An overall contract minimum must be stated, usually as a dollar amount. Agencies have discretion in setting minimums; no fixed percentage need apply. However, the minimum must be more than nominal; otherwise, the contract may be unenforceable. There may be advantages in setting greater minimums because minimum guarantees for IDIQ contracts can be a factor in vendor response to a solicitation. The minimum is determined on a contract-by-contract basis considering the type of requirement. The contract sets individual delivery order minimums. Minimums may also be stated for a contract line item or a sub-contract line item. They can also vary by time period such as by month. Minimums should not be more than the amount the Government is fairly certain to order. The minimum amount is obligated at contract award and de-obligated after orders are executed. The government must agree to purchase the minimum within a fixed period of time. The fixed period can be any time during the contract term. The period may be controlled by the type of funds available, e.g., one-year versus multi-year or no-year funds.

Contract Maximums

An overall contract maximum must be stated. The contract maximum is an integral part of defining contract scope; orders which exceed the contract maximum are outside the scope of the contract. The maximum may be stated in terms of quantities or dollar amounts depending on the requirement. When setting a maximum in terms of quantities, the quantity can be expressed as a number of units, systems, or labor hours that can be delivered under the contract. Maximums can also be established by contract line item, sub-contract line item, or individual delivery orders. They can vary by time period such as by month. These order limits can be used to achieve lower prices at contract award and to help the contractor in planning production capacity and staffing availability and ensuring timely deliveries. The contract maximum is determined on a contract-by-contract basis considering the type of requirement to be satisfied, prior ordering history, the most probable ordering scenario, the agency's business strategy, and reasonable contingencies.

Authorized Organizations

A starting point for planning an IDIQ contract is determining which organizations will be authorized to order from the contract. Authorized organizations must be identified in the contract. Identify authorized organizations early in the acquisition planning. Changing authorized organizations close to release of the solicitation increases the risk of introducing unique requirements that can change the nature of the contract and cause contract administration problems. When consolidating FIP needs within a single contract, ensure the scope of organizations covered is not too large. Contracting efficiency gained by consolidating can be lost if conflicting needs surface during contract administration. Organizations authorized to order from a contract should have common mission objectives and similar business,

scientific, or military needs. Examples of similar needs are office automation, Computer-Aided Engineering, and medium-sized, multi-user systems. Agency-wide contracts can be effective if the scope is tailored to satisfy a particular need.

Profiles of Needs

The requirements analysis for an IDIQ contract describes profiles of needs. The profiles of needs serve as the basis for the statement of work (specifications) for the contract. A good profile for products or services identifies essential requirements those that make a difference to the user. It describes results produced when user needs are satisfied and defines acceptable ranges of quality and performance. Generally, a user survey is performed and prior ordering history is reviewed to develop the profiles. For new or changed needs, a more extensive requirements analysis is performed. The extent of the requirements analysis is commensurate with the need. A comprehensive requirements analysis is usually not needed to put an IDIQ contract in place if specific requirements analyses are done for delivery orders. Typically, analyses performed for delivery orders describe how the specific user's problems are solved with the products or services available under the contract. These analyses can be abbreviated if the delivery orders involve low dollar amounts. In planning IDIQ contracts, it is helpful to use the following guidelines for developing profiles of needs. Limit the number of individual profiles for a single contract to a reasonable number. Eliminate marginal requirements from profiles. Marginal requirements are those that are either not essential or can be satisfied through alternative contracts. For each profile, develop a most probable ordering scenario that shows a range of quantities that may be needed as well as contingencies. The most probable ordering scenario may include assumptions concerning the types and number of products or tasks that may be ordered over time. In preparing profiles of needs, identify potential commercial products or services for each profile prior to solicitation of proposals. This can help determine ways to increase the level of competition and lower prices.

Contractor Support Requirements

Because IDIQ contracts involve delivery order processing, coordination between the government and the contractor is always necessary. The level of support that the contractor provides varies by the type of need the contract satisfies. Contracts with a large number of items that can be ordered require contract management support from the contractor. For large contracts, it is helpful if the contractor's management activity is located in close proximity to the government's program office or, as an alternative, in government-provided space. In general, contractors are required in the Contract Data Requirements List to track contract obligations in terms of dollars and number of orders and report to the Government on a periodic basis. Other types of support that may be provided for in the contract include, but are not limited to, support for order processing, customer technical assistance, warranties, maintenance, and contract management. Contracts should distinguish between services that are provided as general support under the contract and services that can be ordered for specific technical support. For example, general support which is not ordered separately may include the contractor's program management costs while specific technical support may be set up for users to order as a separate item when they order equipment and software. For large contracts providing products, best practices include the following contractor-provided support:

- o Help desk accessed through an 800 number that enables users to obtain information quickly about product ordering, product information, configurations, warranties, and maintenance.
- o Contractor service center for fielding calls from users experiencing trouble with equipment or software, dispatching field service representatives, and performing remote diagnostics, as necessary.
- o Contractor-published ordering guides to assist users in preparing procurement requests after contract award. Ordering guides provide contract-specific information such as descriptions, ordering cut-off dates, prices, and technical requirements including information on interfaces, warranties, and replacement items. The guide can also be made available through an electronic bulletin board system. Contractors have found that communicating ordering information through the trade press works very well. For very large contracts, they place the ordering guide for specific contracts as an insert in a trade newspaper or magazine.

Setting Contact Duration

Contract Duration

Contracts with long performance periods can cause problems. Requirements analyses are less reliable. Cost evaluations are more risky. Contract administration is more complex because of the need to consider many changes over time. Under long term contracts, it becomes increasingly difficult to ensure that the products or services available under the contract satisfy the agency's needs, that prices are fair and reasonable, and that modifications fall within the scope of the contract. On the other hand, short contracts increase competition and are easier to administer. The shorter the contract term, the easier it usually is to execute contract modifications for technology changes within the scope of the contract. To ensure that agencies have access to current technology at fair and reasonable prices, the normal contract term, including options, for IDIQ contracts for FIP products should not exceed three years, without supporting justification. Similarly, to ensure full and open competition for satisfying agencies' requirements, IDIQ contracts for FIP services should not exceed five years, without supporting justification.

Examples When Long Contract Terms May Apply

Acquisition strategies can be devised that achieve competitive prices for current technology over the life of the contract and result in longer contracts. An example is a series of contracts with overlapping performance periods which allow users to order from alternative contracts. For products whose technology is relatively stable, a strong case may exist for a contract term that covers one technology cycle. Within a single technology cycle, the price/performance ratio improves steadily with no major jumps that materially change the marketplace. When the agency anticipates that contract changes (such as equipment and software substitutions) can be executed relatively easily within the scope of the contract, a longer contract term may be planned. For guidance on determining how to plan for and evaluate technology changes, see discussion on Technology Refreshment and Analyzing Proposed Contract Changes. A longer contract period may be needed for other reasons. For example, unusual difficulty in the installation of the resources may require a long contract period. A complex new system may be planned. A learning curve may be justified. Training and software development time may be factors in setting the length of a contract. The contract may be closely tied to other events or program needs. Or, significant conversion or migration considerations may exist. These reasons may apply to IDIQ contracts for services as well as products. The most advantageous alternative for some systems acquisitions may require that maintenance services be available from the contractor providing the equipment or software. In such cases, agencies may determine that a longer contract duration is necessary to allow for ordering maintenance services during the system life beyond the period open for ordering the equipment or software.

The Solicitation and Proposal Evaluation

Solicitations

FIP requirements can usually be described best by function and performance rather than by design specification. The individual contract requirements will determine the appropriate mix of functional, performance, and design specifications. The more performance and design specifications that are developed, the greater the risk of unduly restricting competition. Solicitations with detailed non-mandatory specifications can work well. Agencies should carefully review specifications before releasing the solicitation. Obtaining an independent review of the solicitation is often helpful. Functional specifications with performance criteria contained in evaluation standards can provide offerors flexibility in proposing technical solutions and the agency with substantial room for discretion. But, be prepared to justify choices among proposals. Requests for Proposals (RFP's) are generally the best method for most FIP resources. Before beginning to write the RFP, set a goal for the number of

physical pages for the specifications (Section C) to help ensure that only necessary requirements are included. Reference applicable Government and commercial standards to simplify the solicitation. Try to express each requirement in terms of "Users require that..." Ensure that the solicitation enables multiple awards to be made if it is advantageous for the Government. In the solicitation, disclose any plans to award subsets of the items. In most cases, the terms and conditions contained in the solicitation are executed in the contract. However, agencies may find it advantageous to negotiate certain terms and conditions prior to contract award. The following terms and conditions are usually included in IDIQ contracts for products:

- o Delivery requirements, e.g., number of days for delivery from date of issuance/receipt of the delivery order.
- o Installation requirements, e.g., number of days for completion of installation from date of delivery.
- o Training requirements, e.g., scheduling classes and locations, limits on class sizes, and government-furnished equipment and facilities.
- o Notice period for Government changes in delivery or installation date, e.g., number of days.
- o Inspection and acceptance, e.g., number of days the Government has to inspect and accept and when title and risk of loss pass to the Government.
- o Partial shipments, e.g., handling deliveries which occur over a period of time or to multiple locations.
- o Method for calculating availability, e.g., scheduled operating hours and accounting method for downtime.
- o Liquidated damages which may be invoked by the contracting officer for late deliveries or installations on a case by case basis if actual damages can be quantified.

Services-oriented IDIQ contracts have terms and conditions for progress reporting, staff qualifications, requirements for review of deliverables by a specific level of management, and criteria for acceptance of deliverables by the Government.

Evaluations

Both "lowest-price acceptable" and "greatest value" source selection procedures should be explored to determine which approach will best satisfy the government's requirements. If the "greatest value" method is used for FIP resources acquisition, the agency should ensure that sufficient time and resources are dedicated to plan and justify trade-offs between the technical quality and cost of competing proposals. Before using the "greatest value" approach, agencies should review the September 1992 "Important Considerations For Source Selection of FIP Resources Using the Greatest Value Approach." The "greatest value" method works well if the solicitation discloses all significant factors and subfactors and their relative importance and the source selection authority devotes adequate time to be educated about the acquisition and brings relevant technical and business skills and experience to the decision-making. Training the source selection authority up front and allowing sufficient preparation time in the schedule for reading the solicitation and source selection plan is important. Short, frequent briefings are helpful in keeping the source selection authority informed on progress and plans. If the agency finds that the source selection authority will not be able to devote adequate time to the process, the agency should either look to someone else in the organization or not use the "greatest value" method. Exercise caution in making assignments. The agency should only assign responsibility for an important contract to someone sufficiently high in the organization who can marshal resources and administer clout if necessary. Assigning an important contract to a low level in the organization can be counter productive. Agencies can speed up evaluations several ways. Evaluations proceed faster if the solicitation instructs offerors to key proposals to the evaluation criteria, provide cross-references to the statement of work, limit the number of pages in the proposal response to a reasonable number, and certify compliance with standards. Pre-award survey questionnaires can be included in solicitations that are completed by vendors to validate material presented in offerors' proposals. Automation helps speed up the source selection process. Solicitations may be made available in electronic form. For example, agencies have found less acquisition time is needed by making solicitation materials available through electronic bulletin board systems and diskettes in addition to hard copy. Solicitations should generally include an automated cost model for evaluation purposes. Spreadsheets can be keyed to specific evaluation criteria. For acquisitions with large source selection boards, individual proposal evaluators can be interconnected on secure local area networks. Test before contract award to ensure that what is bought meets expectations. Simple tests or inspections are adequate for simple acquisitions. As the complexity increases, the costs and level of offeror involvement in the testing procedures will increase. For large complex acquisitions, operational

capability demonstrations may be necessary in many cases. For services, plan to contact past performance references to determine whether any deficiencies exist.

Technology Refreshment

In preparing a solicitation for FIP resources, plan for changes. Contract changes can arise as a result of discontinued items, engineering changes made as a general commercial practice of the original manufacturer, and new products and services introduced in the marketplace. During the life of the contract, contractors may offer to make available items if they are within the contract scope. Changes can be made only if the contract scope provisions in the solicitation clearly allow them. This means that Section B and Section C of the contract must be used by the contracting officer for making any scope determinations. Section H of the contract, on the other hand, should set forth requirements for any proposals submitted post-award. Contractors should be required to submit a proposal prior to implementation of any changes, except those to correct a safety hazard in an emergency. Section H may also include a description of the post-award proposal evaluation process to facilitate contract administration. When incorporating technology refreshment within a contract, agencies should perform a risk analysis of prices and technical features during source selection consistent with the evaluation factors stated in the solicitation. The risk that the Government will not actually receive the benefit of low prices offered through competition must be evaluated. Technical differences among competing proposals can indicate the age of products and their vulnerability to technological change during the life of the contract. Factoring this risk into the trade-offs that the agency makes in source selection can yield a reasonable basis for awarding a contract. Post-award, the agency must be careful in exercising contract modifications for technology refreshment. See discussion on Contract Pricing Considerations and Analyzing Proposed Modifications.

Contract Pricing

Contract Pricing Considerations

Contract prices should be fair and reasonable over the contract life. The FAR contains detailed policies for contract pricing. The Armed Services Pricing Manual as well as other agency documents contain guidance on applying these policies. The information necessary to justify prices as fair and reasonable generally depends on whether the contracting officer is awarding or modifying a contract. At contract award, fair and reasonable prices are generally determined as a result of full and open competition--comparing at least two independent price quotations in response to the same solicitation. Generally, no further information is necessary. If the contracting officer believes there is inadequate price competition or that prices are not reasonable, then the vendors may be asked to provide more information. Usually, the requested information is sales data that shows catalog or market prices, including discounts, for comparable quantities and quality. Other contracts can be used, even prior contracts, but differences in quantities, quality, or terms and conditions must be explained. Market research data can also be used. If sales data for the items does not exist, then the contracting officer may ask vendors for more detailed cost or pricing information. Prices may also be based on competition--when there is only one offer but information concerning another similar contract that resulted from adequate price competition leads to the conclusion that prices are fair and reasonable. In some cases, prices may be set by law or regulation, for example, when a public utility commission regulates telephone rates. Following contract award, competition alone is no longer used to determine whether prices are fair and reasonable. In executing a contract modification, the contracting officer will ask the contractor to provide sales data. This generally makes post-award price analysis more complex. To aid post-award price analysis, the contract may require the prime contractor to conduct a competition among potential subcontractors for changes, whenever possible. In conducting subcontractor competitions, the prime contractor can follow the Federal acquisition policies including publishing the requirement in the Commerce Business Daily. Another technique is to compute a price differential (or discount) at contract award between the offered price and a reference price such as the

price offered under the GSA schedules or under an established commercial catalog. The price differential is then used as a guide for analyzing the reasonableness of price changes after contract award. Fair and reasonable prices can be better assured over the contract life if contract prices do not differ significantly from prices paid in the commercial marketplace under contracts for similar quantities and quality. Agencies can minimize differences with commercial terms and conditions by avoiding non-essential special contract provisions. Contracts include a certain level of service costs with product prices. This is frequently done with program management costs. However, including the costs for a high level of contractor support in the price of products can cause contract problems when users perceive that the prices under the contract are not competitive with the marketplace. Separately identifying ("un-bundling") service costs from the product costs enables users to make marketplace comparisons--a strategy that can improve contract viability.

Price Analysis

Evaluate prices for the maximum quantity for each line item during each specific time period. Evaluation schemes that introduce volume discounts for quantity ranges within a single time period generally have two major problems. First, explaining changes in the rank order among proposals may be difficult if the rank order depends on which quantity range is selected. Second, contract administration is more complex if initial orders are at different prices than subsequent orders. Ensure that prices are complete, accurate, and materially balanced--nominal prices for some items and enhanced prices for others should not be accepted without reasonable certainty that the offer will result in the lowest total cost to the Government. Trace all price changes within proposals. Evaluate the realism and reasonableness of prices in relation to the technical requirements of the solicitation. Compare proposed prices with GSA schedules, other commercial prices, and the government's estimate. Fair and reasonable prices paid by purchasers of FIP resources generally include discounts. Discounts vary according to contract terms and conditions, quantities purchased, and other factors. Each proposal must be evaluated on its own merits. Source selection must be based on a present value analysis of offers using the current interest rate on new issues of U.S. Treasury securities with maturities most nearly equal to the term of the contract. For further guidance on selecting the discount rate, see Office of Management and Budget Circular A-104. Carefully examine unreasonably high and low price or cost proposals, especially in contracts for services. If risks are anticipated with low price or cost proposals, include special terms and conditions in the solicitation to mitigate them. Requiring certification of deliverable quality by a corporate officer, advance notification of key personnel changes, and experience and educational qualifications for specific key contractor personnel can help.

Risk Allocation

Establish fixed-unit-prices for products and services for each time period within the contract term, unless circumstances clearly indicate that the Government should assume some of the risk of increases in prices. In most cases, fixed-unit-prices are set within each equipment, service, or labor category. In some cases, a labor-hour or time-and-materials contract is used. If other cost-reimbursement or special pricing arrangements are planned for an IDIQ contract, a specific rationale is needed to ensure that it is advantageous for the Government. If special pricing arrangements are used, then provide for both price increases and decreases, establish a ceiling, and exercise any price adjustment provisions only when contingencies have not been built into the contract prices over time and only if contingencies beyond the contractor's control arise.

Contract Administration

Contract Administration

After the contract is awarded, users prepare procurement requests typically accompanied by a justification or requirements analysis for the user's specific need, delivery orders are executed by the contracting officer, the contractor delivers the items ordered, the deliveries are inspected and accepted

by the Government, and the contractor is paid. Delivery orders are not considered contract actions if they are within the scope of the contract and a synopsis is not needed in Commerce Business Daily. Contract Line Item Numbers and sub-Contract Line Item Numbers (CLINs/SLINs) capture the requirements identified by the scope. Identify and use a numbering scheme for CLINs/SLINs that helps the users distinguish items among systems and type of resource that can be ordered. For example, low-end equipment CLINs can be numbered from 1 through 999, high-end equipment from 1000 through 1999, software from 2000 through 2999, services from 3000 through 3999, and documentation from 4000 through 4999. Have the contractor re-number the scheme as necessary upon contract award. Configuration management procedures control changes to the numbering scheme. The scheme established at contract award serves as a baseline and provides a point of departure for changes during the life of the contract. Whenever a contract modification results in changes to any item, establish a new number for the new item as of its modification date. Anticipate ordering needs. Have authorized user organizations prepare a report showing estimated needs by Contract Line Item (CLIN). Large decentralized organizations may need to distribute order planning responsibilities. Communicate on at least a monthly basis with the contractor on anticipated delivery orders over the next six month period. However, ensure that communication of planning information is not construed by the contractor as placement of orders. Agencies can avoid problems by performing periodic management reviews to determine and correct any ordering or control weaknesses. Prepare a lessons learned document in the first year of the contract. Provide annual management reports summarizing the effectiveness of the internal controls and the responsiveness of the ordering system.

Ordering Systems

Best practices include documenting the draft ordering procedures before releasing the solicitation. This practice provides necessary lead time for implementing ordering procedures and facilitates training COTRs and authorized organizations for using the contract after award. Examine information on FIP resource usage by the organizations that will be authorized to order from the contract to help determine the type of ordering system needed. The type of ordering system depends on the number and frequency of orders anticipated, the dollar value and complexity of the individual orders, users' locations, and other factors. Document the ordering procedures in a manual and distribute it widely. Contractors can also prepare such manuals. Users should know how to set realistic installation or delivery dates that allow time for mailing, review, and processing of the order by the reviewing office or Program Office and the contractor's lead time after receipt of the order. A good ordering system is responsive to users by providing needed products and services on a timely basis while complying with the mandates of good internal control. Set the documentation requirements for decision papers and approvals supporting procurement requests according to the dollar value and complexity of the orders. Goals should be set for error free data interchange between the Government and the contractor. This is important as agencies move to Electronic Data Interchange standards for transaction processing. However, a contract provision can be included to avoid delays in the contractor's acceptance of orders due to minor deficiencies or administrative errors. If such a provision is used, it should provide a definition of unacceptable orders. For example, unacceptable orders could be limited to the following conditions:

- o Errors are of such magnitude that the contractor cannot correctly fill the order and comply with the contract in good faith.
- o There are barriers to payment for deliverables.

To avoid delays in processing, have the reviewing office or Program Office review procurement requests prior to ordering items from a contract. User coordination of procurement requests with the reviewing office or Program Office in draft can help speed up the process. Good agency practices have follow-up procedures with users for deficiencies in procurement requests. Early coordination also helps the Program Office to establish priorities for procurement requests before forwarding them to the contracting officer to issue delivery orders. Two types of order process control can be established. In many cases, the central point of control is the contracting officer. This provides maximum control but may delay order processing if users are geographically distributed. Decentralized order processing through authorized ordering officers can also be arranged. In such cases, the contracting officer can retain control through an automated system and manual procedures. Contractors must accept delivery orders only from the contracting officer or designated ordering officers. Prior to delivery, require the

contractor to contact the site COTR via telephone to confirm the exact delivery and installation or performance dates and follow-up with a written confirmation to both the COTR and the Program Office. An electronic bulletin board system can be used. Handle contractor requests for delays and partial shipments on an exception basis. The point of contact must be the contracting officer. If the contract permits, assess liquidated damages on a case by case basis and only if additional consideration cannot be negotiated. Depending on the specific contract provisions, additional consideration can include accelerated delivery of other items. Require prior written approval from the contracting officer for partial shipments. For government requests for delays, make sure that COTRs notify the contracting officer in advance for any requested delays in the installation or delivery date. Ensure acceptable time limits are established within the contract. Include the notice requirements in COTR training. Insufficient notice of a delay by the Government may entitle the contractor to an equitable adjustment for the delay. Set up inspection and acceptance procedures prior to contract award. Inspection and acceptance procedures may be more extensive for initial items than for subsequent items. Inspection and acceptance can occur at the point of origin or destination. Inspect and accept at origin if possible. If inspection and acceptance will occur at the point of destination, include a contract provision for the government to negotiate additional time, as necessary, to preclude contractor claims related to delays. To ensure that user requirements do not conflict with contract requirements at the time of each order, document inspection and acceptance requirements in each procurement request. Best practices include determining in advance availability, performance levels, and scheduled operating hours by each site. This helps users who may need to set up special record-keeping procedures to track actual operating hours as part of the acceptance. Maintain documentation on acceptance such as copies of the receiving report in a central location. Date information is important for purposes of warranties and maintenance. Allow some flexibility for the site COTR and contractor to agree on user installation in cases when a few small pieces of equipment or software are delivered and installation is simple. Have the COTR confirm acceptance in such cases.

Contract Management Information Systems

Track orders and deliveries against all contract line items and report status. The contractor should prepare reports that are reconciled against the government records. Automate appropriately. For some contracts, manual procedures are sufficient. Consider the size and scope of the ordering process before automating. Automating the contract management information system can improve responsiveness by interconnecting the Program Office, contracting officer, and site COTRs and bringing together databases from many locations. Typically, a relational data base management system can be effectively employed. Such a system may include the following types of information:

- o CLINs/SLINs (baseline)
- o Item descriptions/Prices/References
- o Ordering limitations
- o Status of orders, deliveries, and change requests
- o Acceptance information (scheduled and actual)
- o Problem resolution reports
- o Historical data (Month/Year/Contract Life)
- o COTRs and locations

Have the system planned before the solicitation of proposals so that any reporting requirements from the contractor can be specified. Test the interfaces to the agency financial/payment system to ensure that data from both systems can be easily reconciled. Payment systems must be able to handle any liquidated damages and adjustments arising during contract performance. Track the issuance of delivery orders to the contractor. Provide access to the management information system for COTRs to coordinate site preparation, delivery, and installation as well as any security or access clearances for the contractor. Automate problem reporting so that COTRs or users can enter problem conditions. Under automated systems, COTRs can report deficient deliveries against an order, errors, or trouble with equipment or software. Problem reports may be provided directly to the contractor's system and allow the COTR to enter a specified time period for the contractor to correct the deficiency and update the system following resolution of the problem. Automate field service reports to help the contracting officer or COTR calculate credits to offset maintenance delivery orders. Monitor contract performance. The management information system can be used to help monitor the status and number of days to process all delivery orders, problems, and proposed changes. Report statistics by CLINs/SLINs on a monthly basis to determine if any changes are needed for specific line items or procedures. An exception reporting ability can be used to highlight potential problems on an on-going basis.

Contract Modifications

Analyzing Proposed Modifications

Contract change proposals can be initiated by users, the contractor, the Program Office, or others, including the contracting officer. Changes are initiated when substitutions are proposed because products available under the contract are discontinued by the manufacturer. Users may request that new products be substituted for existing items. Contractors may seek alternative subcontractors to supply products under more favorable terms. Before executing a contract modification, the contracting officer must perform an analysis to determine whether the requested change is within the scope of the contract. Furthermore, as a result of any modification, the contract prices must continue to be fair and reasonable. The contracting officer must decide whether the contract modification should be executed under the circumstances. This decision will include management considerations. In analyzing whether the requested contract change is within the scope of the contract, the contracting officer considers the impact of the proposed change as well as the cumulative impact of changes. Proposed changes are evaluated in light of the intent that was contemplated by the government and the contractor at the time of contract award. Changes must not substantially change the nature or purpose of the contract. Substituting one product for another under the same CLIN is typically within scope unless the cumulative impact of the change substantially changes the nature or purpose of the contract. For example, when the capabilities of the new product are double the old product, more extensive analysis would need to support the determination that the change is within scope. The primary sources for establishing the intent can be found in the government's specifications and supporting documentation for the procurement, and the contractor's proposal. Contract modifications must be advantageous to the government; requested changes are evaluated on their merits. Frequently, the contracting officer will look for improvements in the following areas: o Savings o Quality o Performance o Productivity o Reliability o Maintainability The contracting officer may modify a contract price but the modification must still be within the scope of the contract. Price change analyses are performed commensurate with the size and scope of the proposed change. A cost-benefit analysis can help quantify the advantages to the government. Frequently, contractors prepare cost-benefit analyses to support changes they initiate or as part of their proposals in response to requests by contracting officers. Contractor-prepared analyses are a good source of information to support the government's decision-making; but they should not be the exclusive source. Information provided by the contractor on costs and product availability can usually be easily confirmed. Benefits analyses need to be carefully reviewed and augmented or revised by the Government as necessary.

Documentation

Documentation of the analyses supporting any proposed change is important for aiding the decision-making and maintaining the integrity of the procurement. The type of documentation that is helpful is described below. For requested changes, the user, working with the appropriate COTR, provides the following information: o Description of the requested change identifying the CLIN/SLIN, hardware/software affected, interfaces, and compatibility requirements. o The reason for the change such as to correct a problem, improve or upgrade a capability, or replace a capability. o A justification in terms of lower costs, savings, advantages, or benefits. o The priority for action on the requested change such as a requirement for immediate action or handling it on a non-emergency basis. The contractor's change proposal provides the following information: o How the proposed item meets or exceeds the contract requirements for the original item. o Cross-references all applicable sections of the contract and any subsequent contract modifications. o Life cycle costs for the proposed item including maintenance, support, and collateral costs such as Government-furnished property, related items, and training. o Impact of the proposed change on the contract delivery schedules and completion dates, including the date by which the contract modification should be adopted to obtain maximum benefits. For proposals that offer increased prices, the contractor provides the following information: o Description of the difference between satisfying the contract requirement with the existing and

proposed items. o Identification of the advantages and disadvantages of the proposed change; an analysis of savings, or improvements in quality, performance, productivity, reliability, or maintainability. If the contract needs to change, then the contracting officer documents the process to preserve the integrity of the procurement according to the FAR. The documentation includes the following areas: o Adequate description of the change to establish that the change is within the contract scope including references to the specific specifications for the CLIN/SLIN that relate to the change being made and the impact on the items, prices, schedule, and funding. o Significant details of the proposed contract negotiation and the negotiation strategy. o A detailed review of the contractor's technical and cost proposal. o Additional facts disclosed during negotiations which affected the pre-negotiation strategy. o Justification for the results of the negotiations including a determination the prices are fair and reasonable.

Notifications

Require an advance notice from contractors for proposed changes that they initiate. Notices should be provided to the contracting officer as soon as possible after the contractor knows of the pending change. The contractor should cite the CLIN/SLIN and provide a description of the change. Advance notices can be used to ascertain whether the item is being offered as a substitute for an out-of-production item or an attempt to relieve liability for non-performance (for which liquidated damages may apply). Notify COTRs and users of contract modifications. To avoid redundant change requests, the Program Office can keep users informed through a bulletin describing CLIN/SLIN status as well as planned changes. Avoid informal changes. Cancel affected contract pages and issue new modified pages with notation to direct a reader's attention to changed portions. Preclude pen and ink changes. Identify each modified page by contract number and modification number assigned by the contracting officer.

Option Year Contract Renewals and Contract Close-out

Option Year Contract Renewals

Generally, IDIQ contracts are comprised of a base year and a series of option years exercisable on an annual basis. In some cases, multi-year contracting authority may be provided by statute which enables a longer base contract period than would otherwise be possible. Option years provide agencies flexibility either to continue with the current contracting activity or open the requirement to full and open competition. Once the last option year is exercised, a new contract is required. The decision to exercise an option year is based on an analysis of the option year contract prices as well as other factors, including management considerations, associated with exercise of the option. It is necessary, in many cases, to begin this analysis at least six months prior to the option exercise date. Checking other IDIQ contracts may identify opportunities for alternative sources of supply. Exercising an option year should not necessarily be an all or nothing decision. In some cases, the most advantageous alternative may be to exercise the option for only some of the CLINs. An important element of the analysis is to check whether a fair and reasonable price exists for every CLIN/SLIN in the option year. This involves reviewing market data and performing any necessary market tests. If fair and reasonable prices cannot be established, then the agency has a number of alternatives: it can notify the contractor that the option will not be exercised; it can delete the items that are too expensive from the contract; or it may issue an instruction that prohibits ordering those items. Contractors may also offer a voluntary price reduction. Another element of the analysis involves checking contractor performance in the current year and certifying continued requirements by the users. Coordinate exercise of an option year with user organizations at least three months prior to the contract renewal date. Request written certification. Be prepared to follow-up as necessary. Based on the analysis, provide the contractor with a 60 day preliminary notice of intent to exercise an option. Also, notify the users of contract and order limitations. Monitor orders closely to ensure that limitations are not exceeded. Establish frequent checkpoints when the contract is close to approaching limits.

Contract Close-out

Because IDIQ contracts frequently have many items that have been ordered, delivered, and accepted, contract close-out can be a large task requiring resources, effort, and coordination. Contract close-out cannot occur until the contractor has completed the required deliveries or performed all services and the government has accepted them, the option provisions have expired, or the contractor has been given notice of termination. For facilities contracts, close-out cannot occur until the contractor has received notice of complete termination or the contract period has expired. If there is a warranty clause in the contract, then close-out cannot occur until the warranty expires. In addition, contract close-out cannot occur until all administrative actions have been completed, all releases executed, and final payment made. Establish and document contract close-out procedures within the agency. Prior to contract close-out, prepare a check-list of all elements that must be closed out. Reconcile contract files against close-out requirements and obtain any missing documentation. Contact COTRs to ensure that the contractor has completed the required deliveries and the government has accepted the supplies and services. Audits may be requested and performed as necessary. Obtain final reports as well as the final claim invoice. Check the contract to ensure that all option provisions, if any, have expired. Make a contract completion statement part of the official contract file.