



**DEPARTMENT OF THE NAVY**  
**SPACE AND NAVAL WARFARE SYSTEMS COMMAND**  
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Canc: Mar 2017

SPAWARNOTE 4200

2.0

28 Apr 2016

SPAWAR NOTICE 4200

From: Commander, Space and Naval Warfare Systems Command

Subj: SERVICE CONTRACTING PERFORMANCE METRICS

Ref: (a) DoD Instruction 5000.74 of 5 January 2016  
(b) USD AT&L memo, Implementation Directive for Better Buying Power 3.0 - Achieving Dominant Capabilities through technical Excellence and Innovation of 9 Apr 15  
(c) Joint ASN(RD&A)/ASN(FM&C) memo, Contractual Services Guidance for FY15 of 17 Oct 14  
(d) ASN RD&A memo, Reducing Reliance on Bridge Contracts of 3 Oct 12  
(e) USD AT&L memo, Improving Competition in Defense Procurements - Amplifying Guidance of 27 Apr 11  
(f) DASN memo, Contracts for Services of 15 May 07  
(g) FAR  
(h) DFARS  
(i) Navy Marine Corps Acquisition Regulation Supplement  
(j) SPAWARINST 4200.26C

Encl: (1) SPAWAR Service Contracting Performance Metrics, Revision 2

1. Purpose

a. To provide oversight of planning and executing services acquisition requirements per references (a) through (j). As Head of the Contracting Activity (HCA), I have reviewed the SPAWAR service contracting performance metrics in concert with reference (b), Implementation Directives for Better Buying Power 3.0, to improve the services tradecraft and alert the SPAWAR leadership to risk areas before unintended situations occur. In this notice, the term "Performance Metric" has replaced the previously used term "Tripwire" to emphasize that these thresholds are meant to instill accountability by elevating issues that had previously not risen to senior leader attention, rather than actions to be avoided. The revised Performance

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Metrics outlined in enclosure (1) are tools to improve visibility at higher management levels and ensure the proper decision-making rigor is present for specific actions.

b. The Performance Metrics do not encompass all the areas of services acquisition that require oversight and risk management. However, they are intended to raise awareness and accountability across both the requirements and acquisition communities and initiate vigorous implementation of actions to improve Government oversight, efficiencies, and effectiveness. SPAWAR leadership is required to ensure services requirements are properly scoped, acquisitions are properly planned, and that the Government receives proper value for its dollar. Action is necessary to maintain the public's trust and execute the mission in the face of the current budget environment.

2. Cancellation. SPAWARNOTE 4200 of 14 Dec 2015

3. Background. Reference (j) establishes the contracting guidance and procedures for the SPAWAR Claimancy.

4. Scope. Revised herein are the SPAWAR Service Contracting Performance Metrics that cover all service requirements funded and executed at SPAWAR, including all Competencies, Fleet Readiness Directorate (FRD), Program Executive Offices (PEOs), and SPAWAR Systems Centers (SSCs). This includes any service requirements fulfilled by non-SPAWAR activities on behalf of SPAWAR through Military Interdepartmental Purchase Request (MIPR), Interdepartmental Procurement Request (IPR) or other funds transfer methods. The specific Performance Metric execution strategy is outlined in enclosure (1).

5. Policy. SPAWAR personnel must be diligent to ensure services are acquired using the proper processes and per applicable acquisition laws, regulations, and policies, including the Competition in Contracting Act (CICA), Truth in Negotiations Act (TINA), Organizational Conflicts of Interest (OCI), the Procurement Integrity Act (PIA), the Anti-Deficiency Act, Joint Ethics Regulations, and sections of the FAR and DFARS that cover personal services. Lack of awareness of applicable law, regulation, or policy does not relieve accountability for the organization's actions.

6. Action. SPAWAR will report the performance metrics as they occur to the appropriate level as identified in enclosure (1). In addition, it is anticipated that a Commander's Assessment of Service Requirements Review (CASRR) will be held at least annually. The CASRR establishes a collaborative environment

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designed to facilitate meaningful discussion about services requirements, processes, contracting, post-award oversight, and performance metrics. The CASRR is intended to help meet Secretary of the Navy expectations that services are developed responsibly in a repeatable process that ensures planning, budgeting, and execution of contract service requirements are identified with an appropriate level of oversight. SPAWAR Tier 1 National Competency Lead, PEOs aligned under SPAWAR HQ, and SSCs, will summarize their respective Service Requirement Review Boards (SRRBs) as required by references (a) and (c) during the applicable CASRR. The CASRR process and SRRBs will meet Chief of Naval Operations requirements ensuring that the SPAWAR Budget Submitting Office (BSO) implements a SRRB for contract requirements. In addition to the SRRB results, each organization will use its respective performance metrics in preparation for the CASRR discussion. Additional topics will be provided prior to each CASRR based on the current services environment.

7. Records Management. Records created as a result of this notice, regardless of media and format, will be managed per Secretary of the Navy Manual 5210.1 of January 2012.



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**SPAWAR Service Contract Performance Metrics, Revision 2**

Service Contract Definition: Reference (g), Federal Acquisition Regulation (FAR) Subpart 37.101, defines a service contract as "a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply." Services can be knowledge-based services, electronic and communication services, equipment related services, medical services, facility-related services, transportation services, and research and development services.

The following services are excluded from this SPAWARNOTE:

- The Research and Development Product Service Code (PSC) group with the exception of the AXX6 (RDT&E Management/Support) class;
- Off-the-shelf software including software licensing agreements and off-the-shelf software updates, Software Maintenance Services Plans and Hardware Maintenance Services Plans for PSCs (D319 & D320); and
- Foreign military sales/services.

SPAWAR On-line Reporting Tool: The SPAWAR Service Contracting On-line Reporting Tool will be used to record all actions that trigger a Performance Metric established in this notice. This tool is intended to establish consistency within SPAWAR as it relates to the oversight of service contracting; as well as to provide a mechanism to collect, monitor, and report the Performance Metrics. In addition, the tool will be used in the preparation of CASRRs and SRRBs. Data integrity and validation is imperative when using the Reporting Tool as the information that is entered into this system will be used to generate comprehensive reports that will be reviewed by SPAWAR senior leadership and relied upon by senior Navy leadership to make informed decisions. The use of this Reporting Tool is required for all SPAWAR competencies, FRD, SSC LANT, SSC PAC, PEO C4I, PEO SPACE, and PEO EIS. The link to the Reporting Tool is:

<https://e-commerce.sscno.nmci.navy.mil/tripwire.nsf/HomePage?openform>

NOTE: This notice is to be used in conjunction with existing SPAWAR policies and is not intended to preempt the policies set forth in reference (j).

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1. Bridge Contracting Actions. In accordance with reference (d), the use of bridge contracts, a descriptive term for non-competitive contracts to bridge the time between the end of one contract action and the beginning of another, is an impediment to real competition. Sole source actions are exceptions to the CICA and require a written Justification & Approval (J&A). Often bridge contracts are the result of poor planning and are more costly due to a lack of competitive pricing.

a. Performance Metric. Any contracting action that bridges the time between the end of one contract action and the beginning of another.

b. Applicability. The term 'Bridge Contracting' applies to service contracts over the Simplified Acquisition Threshold (SAT).

c. Actions. A request for bridge contract authorization must be made to the appropriate authority. Once authorization is received, a J&A must then be processed and approved at the appropriate levels.

(1) Approval thresholds for the separate bridge contract authorization, as set forth in reference (i) Subpart 5206.303-1, are as follows, and may be delegated one level:

Bridge Value	Approval Authority
\$700,000 or less	Activity Chief of the Contracting Office (CCO)
Between \$700,000 and \$5,500,000	Echelon II CCO SPAWAR 2.0
Greater than \$5,500,000	Head of Contracting Activity (HCA)

J&As for bridge contracting actions shall not be submitted for review and/or approval before a separate bridge contract authorization is approved in accordance with reference (d). To reduce reliance on bridge contracts and promote real competition, the program manager/requirements owner shall prepare the request for authorization of a bridge contract. The request shall address the rationale for the use of a bridge contract, certify to the urgency of the requirement, and be signed by both the program manager/requirements owner and the Procuring Contracting Officer (PCO).

(2) J&As for all bridge contracting actions greater than \$13.5M and/or exceeding a six (6) month period of performance, will be forwarded to SPAWAR 2.0 for approval; otherwise the J&A may be signed by the activity CCO. J&As for any subsequent

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bridge contracts (i.e., 2nd, 3rd bridge), regardless of value or period of performance, will be forwarded to SPAWAR 2.0 for approval. This J&A must include rationale as to why the schedule in the initial bridge J&A was not achieved.

2. Best Value Trade-Off Source Selection Premiums. In a Best Value trade-off competition, the Government may be willing to pay a cost/price premium in order to obtain a higher rated level of support; however, the premium still must represent a good business decision for the Government. Being able to afford something does not necessarily mean it is in the best interest of the Government to do so. 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. The "greater than 10 percent" Performance Metric described below does not suggest there is anything impermissible with respect to paying a greater than 10 percent premium, only that an additional analysis as to the value and higher level reviews are required.

a. Performance Metric. Any Best Value premium greater than 10% of the lowest acceptable offeror's total evaluated cost/price.

b. Applicability. This Performance Metric applies to competitive service contracts and task orders over the SAT.

c. Actions. After collaboration with the requiring organization's Source Selection Authority (SSA)<sup>1</sup> or Source Selection Evaluation Board (SSEB) Chairperson/equivalent:

(1) The SPAWAR HQ PCO, prior to award, will forward - through the respective SPAWAR HQ 2.0 Branch Head - the business clearance memorandum (BCM) or price negotiation memorandum (PNM) for all service contracts and task orders to SPAWAR 2.0/2.0A for approval of any best value source selection where the cost/price dollar premium is greater than 10 percent over the lowest acceptable offeror's total evaluated cost/price<sup>2</sup>.

(2) The SSC PCO, prior to award, will forward, through the CCO, the BCM or PNM for all service contracts/task orders

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<sup>1</sup> The PCO may be the SSA.

<sup>2</sup> "Lowest acceptable offer" acceptability is determined by the SSA/SSEB, which will assess whether that offer is at the level within the adjectival ratings that the Government would consider awarding a contract.

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valued at \$50M or greater to SPAWAR 2.0/2.0A for approval of any Best Value source selection where the cost/price dollar premium is greater than 10 percent over the lowest acceptable offeror's Total Evaluated Cost/Price. The BCM or PNM will be approved by the CCO for service contracts/task orders valued less than \$50M where the cost/price dollar premium is greater than 10 percent over the lowest acceptable offeror's Total Evaluated Cost/Price<sup>3</sup>.

3. Other Direct Costs (ODCs). While a services contract is appropriate when the primary purpose is to perform an identifiable task, materials are often required to perform these services. It may be appropriate for a services contractor to procure materials under a services contract; however, there are a number of considerations that enter into developing an appropriate strategy to meet any requirement. For the purposes of this Performance Metric, ODCs include incidental material, travel, and other incidental non-labor costs required in performance of the service; subcontractor and consultant costs are not included. The Government must not engage in the act of purchasing materials under a services contract in order to circumvent existing policies and procedures governing the procurement of supplies. Non-incidental equipment/material that is directly required for performance (e.g., can be identified as a specific requirement under the particular contracted project or activity) of an effort under the contract/task order should not be acquired via an ODC. Material requirements of this nature will be established under a separate material contract line item number (CLIN) or through a separate supply/hardware contract. Reference (f) reemphasized that it is "important to ensure that contracts for services acquire end items consistent with the definition of a services contract." Additionally, the DASN memorandum emphasizes "the need to ensure that service contracts are not improperly used to acquire products or facilities not required for, or incidental to, performance of those services."

a. Performance Metrics.

(1) Prior to Award of Contract/Task Order. Estimated ODCs are greater than 10 percent of the total labor value or exceed \$3M (whichever is lower) for any given contract/task order period of performance (e.g., base year, option year 1, etc.).

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<sup>3</sup> "Lowest acceptable offer" acceptability is determined by the SSA/SSEB, which will assess whether that offer is at the level within the adjectival ratings that the Government would consider awarding a contract.

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(2) After Award of Contract/Task Order. Cumulative amount of ODCs exceeds 10 percent of the original ODC total for any given period of performance<sup>4</sup> (unless the revised ODC total is below 10 percent of the total labor value or \$3M, whichever is lower).

b. Applicability. This Performance Metric applies to cost-type service contracts and task orders over the SAT.

c. Actions.

(1) Prior to Award of Contract/Task Order. The rationale for the ODC requirement will be documented in a memorandum signed by the program manager (or equivalent), and provided to the PCO for inclusion in the BCM or PNM. The methods for monitoring these ODCs will be documented in the applicable Quality Assurance Surveillance Plan (QASP).

If the basic cost-type indefinite delivery, indefinite quantity (IDIQ) ODC threshold was reviewed, approved, and reported as an action that crossed the ODC pre-award Performance Metric, task orders issued under this IDIQ are only reported when the original thresholds established within the IDIQ are exceeded.<sup>5</sup>

(2) Following Award of Contract/Task Order. The Contracting Officer's Representative (COR) will monitor the use of ODCs. The rationale will be documented in a memorandum signed by the program manager (or equivalent), and provided to the PCO for inclusion in the contract file.<sup>6</sup>

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<sup>4</sup> e.g., base year, option year 1, etc.

<sup>5</sup> ODCs Prior to Award Example: An IDIQ MAC is awarded with an ODC ceiling amount equal to 25 percent (\$10M) of the total labor value. A task order requirement includes ODCs valued at 15 percent (\$4M) of the total labor value of the task order. This is NOT considered a reportable action that triggers a Performance Metric as it falls within the thresholds established in the IDIQ MAC.

<sup>6</sup> ODCs after award of contract or task order example: COR finds that, during performance, ODCs will increase by \$100K, cumulatively, as a result of additional requirements for travel that were not identified when the task order was competed. Even with the additional travel requirements, the cumulative amount of ODCs is only 5 percent of the total labor value. This is NOT considered a reportable action that triggers a Performance Metric because the ODC still falls below the thresholds established for a pre-award ODC Performance Metric.

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#### 4. Labor Rates.

##### a. Performance Metrics.

(1) Prior to Award Labor Rates. Fully burdened labor rates (inclusive of fee) that are in excess of \$165.00/hour in any labor category that have been proposed by the apparent successful awardee and their proposed subcontractors.

(2) After Award Labor Rates. Labor charge in any labor category in excess of \$165.00/hour that was not originally reviewed at time of award.

(3) Variance (Negotiated vs. Actual Average Rates). Any increase of negotiated-to-actual quarterly labor cost variances greater than 15 percent.

Note: If the number of hours within a labor category, collectively, is equal to or less than 500 labor hours for any given period of performance (e.g., base period, option year 1, or option year 2) within a contract/task order, this labor category is excluded from Performance Metric reporting.

If individuals within one labor category, collectively, are estimated to work equal to or less than 500 labor hours for any given period of performance within a contract/task order, this labor category is excluded from Performance Metric reporting. Caution: Labor categories should not be split among several individuals to circumvent Performance Metric reporting. Once the labor category hours exceed 500, then all people within that labor category with fully burdened rates (inclusive of fee) in excess of \$165.00/hour are subject to Performance Metric reporting.

b. Applicability. These Performance Metrics apply to level-of-effort (LOE) cost-type, time and material (T&M), labor-hour, fixed price LOE services contracts and task orders over the SAT unless otherwise stated below.

(1) The Prior to Award Performance Metric (paragraph 4.a.1) does not apply to IDIQ task orders that include previously reviewed fixed price rates at the contract level.

(2) The Prior to Award Performance Metric (paragraph 4.a.1) does not apply to basic cost-type IDIQ contracts that include non-fixed price labor rates at time of contract award. This Performance Metric is applicable to all task orders placed against these basic cost-type IDIQ contracts.

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c. Actions.

(1) Labor Rates Prior to Award of Contract/Task Order. The PCO will analyze fully burdened labor rates in excess of \$165.00/hour and document the analysis within a pre-award labor rate memorandum. The memorandum should not only address the fully burdened labor rate but also the number of hours proposed within each of these higher paid labor categories.

The memorandum will be reviewed and signed prior to award, at a minimum, by the program manager (or equivalent), the SSA<sup>7</sup>, the PCO, and respective SPAWAR HQ 2.0 Branch Head or the CCO for SSCs. Unless otherwise required, the BCM or PNM does not have to be forwarded with the labor rate review memorandum for review. Although the \$165.00/hour labor rate is a Performance Metric to be reviewed prior to award, there is no restriction on awarding a contract or task order in which the labor rates exceed the \$165.00/hour rate.

(2) Labor Rates After Award of Contract/Task Order. The COR will monitor actual invoiced fully burdened rates (inclusive of fee) at least monthly. If the COR identifies a fully burdened per person labor charge in any labor category in excess of \$165.00/hour that was not originally reviewed (as detailed in paragraph 4.b. above) at time of award, he or she will notify the PCO and cognizant program manager, or equivalent, in writing. The written documentation (e.g., invoice review report) will be signed by the program manager, or equivalent, for concurrence and forwarded to the PCO.

Once the individual labor rate has been reported, the COR is not required to report the individual labor rate again unless the rate increases more than 10 percent of the original reported amount.<sup>8</sup>

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<sup>7</sup> The PCO may be the SSA.

<sup>8</sup> Actual Fully Burdened Rates Example: COR conducts monthly reviews of actual fully burdened labor rates during the Base Year performance period. In March, a senior engineer was invoiced at \$170/hour but was not included in the original proposal at that rate. The COR requests additional rationale from the contractor and agrees that this is an appropriate rate to pay for this level of expertise. The COR documents and reports this labor rate as an action that triggered the Performance Metric as it exceeds \$165/hour. In April, May, June, and July, the same individual is invoiced at \$170/hour. These are not considered reportable actions as the rate has not increased from the originally reported amount. In August, the same individual's rate increased to \$188/hour. This will be reported as an additional entry for Performance Metric reporting because the rate has increased more than 10 percent. The COR should continue to monitor labor rates and, if required, establish a new reported action within the tool for Option Year I.

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(3) Negotiated Versus Actual Average Labor Rate Variance. The COR will monitor the monthly average actual invoiced labor rate (total actual fully burdened labor costs and total number of hours performed) compared to the average negotiated labor rates (total negotiated fully burdened labor costs and total number of hours negotiated). The COR shall report any resultant action that triggers the Performance Metric on a quarterly basis. The quarterly labor cost variance will be based on an average of the 3 months prior to reporting. Any applicable variance requires notification via signed written communication (e.g., an invoice review report) signed by the program manager, or equivalent, for concurrence and forwarded to the PCO.<sup>9</sup> The program manager, or equivalent, can request relief from reporting actions that trigger this Performance Metric if he or she believes the variance will not significantly increase over time. The written request will be submitted to the respective SPAWAR HQ 2.0 Branch Head or SSC CCO for approval. If approved, the program manager, or equivalent, need only report a subsequent action that triggers the Performance Metric if the average actual invoiced labor rate collectively increases more than 15 percent over the last reported rate within the same performance period (see Footnote 7).

(a) If a contractor invoices more than once a month, for the purposes of this Performance Metric, the COR shall add the invoiced amounts together to develop the actual monthly invoiced labor costs.

(b) In addressing these variances during the invoice/monthly status review, the COR should:

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<sup>9</sup> Negotiated vs. Actual Average Rates Example: The COR reviews the variances monthly during the Option Year 1 performance period. In April the COR notes the variances in the first quarter of performance as follows: January - 10%, February - 12%, March - 15%. The average for the first quarter is 12.3%, and should NOT be reported. In July the COR notes the variances in the second quarter of performance as follows: April - 20%, May - 12%, June 15%. The average for the second quarter is 15.6%, and SHOULD be reported. In October, the COR notes the variances in the third quarter of performance as follows: July - 17%, August - 18%, September - 18%. The average for the third quarter is 17.7%, and SHOULD be reported as it increased more than 15 percent over the last reported rate within the same performance period. In January, the COR notes the variances in the fourth quarter of performance as follows: October - 18%, November - 15%, December - 10%. The average for the fourth quarter is 14.3%, and should NOT be reported. The COR should continue to monitor variance and, if required, establish a new reported action within the tool for Option Year 2.

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1. Compare the proposed labor rates within a labor category to the labor rates that are being invoiced and note if the Government is paying the rates that the contractor had proposed;

2. Analyze the trend over several months to see if the effort will be completed within the original CLIN ceiling (both dollars and hours) of the current period of performance; and

3. Review any changes in the labor mix that would result in a variance.

5. Subcontractors. Post award due diligence is required to monitor any proposed addition of subcontractors beyond those included and evaluated as part of the initial award. The Government cannot be perceived as exerting improper influence on the prime contractor to contract with specific subcontractors for any reason, including circumventing the CICA. The Government does not have privity of contract with the subcontractor; only with the prime contractor. It is the prime contractor's responsibility to propose a team to accomplish the requirements, and it is the prime contractor's responsibility to select additional subcontractors if it becomes necessary to supplement the team.

a. Performance Metric. Addition of subcontractors after award.

b. Applicability. This Performance Metric applies to all service contracts and task orders over the SAT that are adding to the contract/task order after award, any cost-reimbursement, time-and-materials, or labor-hour type subcontract, or any fixed-price subcontract that exceeds either the greater of the SAT or five (5) percent of the total estimated cost of the contract/task order.

c. Actions. In accordance with FAR 44.201, each additional subcontractor added to the contract/task order after award will be reviewed by the PCO to ensure the prime contractor has provided the required documentation and the information clearly supports that the proposed subcontract(s) are appropriate for the tasks involved, consistent with current policy and sound business judgment. The PCO will obtain written concurrence from the COR and the program manager, or equivalent, to add the subcontractor(s) to the existing contract/task order. All subcontractor additions valued over the SAT, will be approved at one level above the PCO. All subcontractor

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additions valued under the SAT, will be approved by the PCO. Subsequent to approval, the PCO will then issue consent to subcontract to the prime contractor.

(1) To implement the subcontractor Performance Metric, language will be incorporated into SPAWAR contracts via the clause at FAR 52.244-2. Paragraph (d) of FAR 52.244-2 fill-in text must inform contractors that consent to subcontract is required when adding any cost-reimbursement, time-and-materials, or labor-hour type subcontract, or any fixed-price subcontract that exceeds either the greater of the SAT or five (5) percent of the total estimated cost of this contract/task order, whichever value is lower.

6. One-bids. Effective competition is one of the most powerful tools the Government has to further true efficiency and do more with less. Single offers, or one-bids, can be the result of several factors: inadequate time to prepare a proposal, poorly described requirements, or evaluation factors that appear to favor an incumbent. Per reference (e), unless an exception applies or a waiver is obtained from SPAWAR 2.0/2.0A; or CCO for SSCs, the following procedures apply:

a. Performance Metric. One-bids for competitive service contracts and task orders. One-bids occur when only one offer to a solicitation has been received even after the solicitation has been publicized under full and open competition. Per reference (h), DFARS 215.371-3, if there was a reasonable expectation that two or more offerors, competing independently, would submit priced offers but only one offer is received, this circumstance does not constitute adequate price competition.

b. Applicability. This Performance Metric applies to competitive service contracts and task orders valued at \$250,000 and above.

c. Actions. All one-bids received under a competitive solicitation will be reported to the respective SPAWAR HQ 2.0 Branch Head, or SSC CCO; per FAR 15.403-1(c)(1)(ii) the PCO will take the appropriate action.

(1) BCMS for all one-bid procurements greater than \$10M will be elevated to SPAWAR 2.0/2.0A for approval.

(2) Waivers will be processed and uploaded to the On-line Reporting Tool for all one-bid procurements that were open for less than 30 days.