GLOBAL – THEATER SECURITY COOPERATION MANAGEMENT INFORMATION SYSTEM (G-TSCMIS) RELEASE 3

INCENTIVE FEE PLAN

v1.0

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GLOBAL – THEATER SECURITY COOPERATION
MANAGEMENT INFORMATION SYTSEM (G-TSCMIS)

INCENTIVE FEE PLAN

1. INTRODUCTION

1.1 G-TSCMIS is a Joint Command and Control (C2) Architecture-compliant, web-based, enterprise-hosted solution that provides consistent Theater Security Cooperation (TSC) planning and assessment capabilities across all Combatant Commands (COCOMs), Services, and Agency users. Users access G-TSCMIS via their existing web browsers on Secure Internet Protocol Router (SIPR) / Non-Secure Internet Protocol Router (NIPR) workstations. G-TSCMIS provides capabilities that meet the spectrum of user needs from the Office of the Secretary of the Defense and the Joint Chiefs of Staff to country desk officers.

1.2 USD(AT&L) released its interim Better Buying Power (BBP) 3.0 guidance in the form of a white paper issued on 19 September 2014. One of the BBP 3.0 initiatives calls for the "employ of appropriate contract types, but increase the use of incentive-type contracts" based on a high correlation between formulaic incentives and better cost and schedule performance. According to Office of Management and Budget (OMB) Memorandum for Chief Acquisition Officers and Senior Program Executives dated 4 December 2007 titled "Appropriate Use of Incentive Contracts," Awards must be tied to demonstrated results, as opposed to effort, in meeting or exceeding specified performance standards. It also states that:

> Incentive fees must be predetermined in writing and processes for awarding the fees must be included or cross-referenced in the acquisition plan (see FAR 7.105(b)(4)(i)). This incentive fee plan should include standards for evaluating contractor performance and appropriate incentive fee amounts. When considering the incentive fee arrangement, the plan should distinguish between earning potential for satisfactory versus excellent performance. Metrics should clearly describe what is required and at what point a contractor is considered successful.

1.3 The purpose of this document is to outline overall strategy, define responsibilities, establish procedures, and identify criteria for determining incentive fee applicable to the G-TSCMIS development contract deliveries. The contract requires the development of G-TSCMIS Release 3. This plan describes contract cost and technical performance measures and provides an explanation of the methodology and performance thresholds associated with applicable incentive fees. The performance measures are:

1.3.1 Technical: Delivery of technically acceptable G-TSCMIS Release 3 software iterations (i.e., CDRL A006 – Computer Software Product) in accordance with the requirements set forth in the contract.

1.3.2 Cost: Delivery of technically acceptable Release deliverables in accordance with the estimated cost set forth in the Section B labor CLIN of the contract for Release 3.

1.4 This Incentive Fee Plan recognizes minimum acceptable performance, rewards the Contractor for increased levels of performance, and offers no reward for marginal/unsatisfactory performance. The specific process for determining the Contractor's performance and corresponding Incentive Fee earned is set forth in this plan and the G-TSCMIS contract.

1.5 The PCO will award incentive fees earned by the Contractor via a bilateral funding modification. The Government will give the Contractor the opportunity to understand the basis for the award amount prior to issuing the modification. Additionally, the Government will assure evaluation conforms to the contract and this plan while giving prompt and consistent feedback.

The Government and Contractor may make changes to the incentive calculation methodology no later than thirty (30) days after the beginning of the contract evaluation period, unless otherwise negotiated. The Government and Contractor will implement these changes via a bilateral modification.

1.6 Attainment of the objective performance measures will form the basis for determination of the Contractor's performance and earned incentive fee. The Government will limit its incentive fee evaluation to the cost and technical performance criteria described in this document. The Government will not hold the Contractor responsible for failure to achieve performance measurements outlined in the contract for reasons directly attributable to the Government.

2. RESPONSIBILITIES

2.1 Contracting Officer's Representative (COR). The COR will:

2.1.1 Act as the Fee Determining Official for this contract. The COR will refer changes that bear on the fee pool or other aspects of the Incentive Fee Plan to the PCO for resolution.

2.1.2 Review input for Release 3 evaluation, to include invoiced costs incurred and billed under the software development CLIN 0001, the list of Software Trouble Reports (STRs) for each iteration, the corresponding share line, share ratio, and fee percentage supporting their fee computation, the amount that the Contractor believes it earned in accordance with the contract, and any comments.

2.1.3 Complete the G-TSCMIS incentive fee calculator after the following 2 conditions are met:

1. The Contractor submits the final Wide Area Work Flow (WAWF) invoice under the Release 3 software development CLIN 0001 and all anomalies between the invoiced and reported actual costs have been resolved, and

2. The Government completes acceptance testing for iteration 3 and has documented STRs.

2.1.4 Forward the verified incentive fee calculator to the PCO for review/comment or concurrence prior to sending to the Contractor for concurrence or comment.

2.1.5 Respond to Contractor comments within ten (10) business days after the Contractor submits comments to the incentive fee calculator.

2.1.6 Copy the PCO and Contract Specialist on all incentive fee correspondence with the Contractor.

2.1.7 Forward the recommended incentive fee amount to the PCO, with funding document as necessary, for award after adjudicating Contractor comments or receiving Contractor concurrence. The COR shall refer any comment resolution that does not follow the incentive fee computation method outlined in the contract and this plan to the PCO for resolution.

2.2 APM-C. The APM-C will:

2.2.1 Provide input to the COR to aid in completing the incentive fee calculator, if requested by the COR.

2.2.2 Receive the completed G-TSCMIS incentive fee calculator from the COR and verify all data is entered correctly, if requested by the COR.

2.2.3 Provide any requested information to the COR to assist in adjudicating Contractor comments.

2.3 Procuring Contracting Officer. The PCO will:

2.3.1 Verify the data entered into the incentive calculator is accurate based on the Contractor’s WAWF invoice submission information.

2.3.2 Receive a copy of all incentive fee correspondence between the COR and Contractor.

2.3.3 Issue a bilateral contract modification to authorize invoicing of earned incentive fee and promptly remove all unearned incentive fee, if any, after the final incentive fee amount is determined, PR received, and modification is requested by the COR.

2.3.4 Execute changes to the contracted incentive fee plan, the methodology in which any incentive fee is determined and distributed, or changes to the incentive fee pool available for incentive fee consideration.

2.4 Contractor. The Contractor will:

2.4.1 Complete all invoicing associated with Release 3 iterations following Government acceptance of the delivery. Acceptance shall be determined in accordance with Section E of the contract. Note: The G-TSCMIS incentive fee calculation cannot begin until the Contractor submits the interim final WAWF invoice under the software development CLIN 0001 for the Release 3 development and the invoices agree with reported actual costs.

2.4.2 Receive the incentive fee calculator from the COR for comment or concurrence.

2.4.3 Provide comments or concurrence to the COR within five (5) working days of receipt of the completed incentive fee calculator.

3. EVALUATION PROCESS

3.1 Within thirty (30) calendar days after the Contractor submits the final WAWF invoice under the software development CLIN 0001 and resolution of all discrepancies, and following completion of government acceptance testing for iteration 3, the COR will complete the incentive fee calculator using the final labor costs incurred and billed under the software development CLIN 0001 and the list of STRs for each iteration. Note that performance fee must be earned for Iteration 3 in order to be eligible to receive cost fee. In other words, if Iteration 3 is assessed as Marginal or Unsatisfactory, then the Contractor will also receive the minimum Cost fee.

3.2 The COR will forward the incentive fee calculator spreadsheet to the PCO for verification of entered data, as required. The PCO will have five (5) working days to respond with either concurrence or changes to the data entered in the spreadsheet.

3.3 Following PCO verification, the COR will forward the incentive fee calculator to the Contractor and copy the PCO. The Contractor will have five (5) working days to provide either comments or concurrence with the spreadsheet. If the COR receives no response in five (5) working days, the Government will assume concurrence.

3.4 If the COR receives comments from the Contractor, the COR will work with the Contractor to resolve those comments and keep the PCO informed. The COR will copy the PCO on all Contractor comments and details leading to resolution. These efforts exclude conduct of negotiations.

3.5 The COR will provide the final earned incentive fee amount to the PCO with supporting data (labor costs incurred and billed under the software development CLIN 0001 for Release 3, voucher numbers, the list of STRs by iteration, any Contractor comments and adjudication, the completed incentive fee calculator). The COR will include any required funding or request for adjustment of unearned incentive fee within ten (10) working days after receiving either concurrence or adjudicating comments from the Contractor.

3.6 The PCO will issue a bilateral contract modification to identify the earned Incentive Fee amount and basis therefore, remove unearned incentive fee on the contract, and authorize invoicing of the said earned amount.

4. INCENTIVE FEE CALCULATION METHODOLOGY

4.1 The incentive fee will be split 50/50 between performance and cost. By splitting the incentive fee between cost and performance, there will be two incentive fee pools: one for cost and one for performance. The performance incentive fee will be split equally between the 3 iterations (i.e., fee will be earned incrementally). The Government will use objective assessments to evaluate the Contractor's overall cost and technical performance and corresponding Incentive Fee during the evaluation period. The Government structured the Incentive Fee criteria to achieve the performance-based objectives tied to software quality (i.e. quantity and priority of STRs). Note that performance fee must be earned for iteration 3 in order to be eligible to receive cost fee. In other words, if iteration 3 is assessed as Marginal or Unsatisfactory, then the Contractor will also receive the minimum Cost fee. The above language does not automatically permit the Contractor to incur costs in excess of the amount obligated on the CLIN, or to permit late product delivery. The terms of the contract apply in such instances.

4.2 Technical Performance. The available performance incentive fee pool will constitute 50% of Release 3 software development CLIN's incentive fee values. The performance portion of the fee will be evaluated based on the priority and number of STRs found during Government testing for each iteration. The contract Section E-3 defines the STR priority levels. The performance fee for the Release 3 delivery will be determined using Table 1. Note that the number of Priority 3 STRs allowed increases slightly with each iteration.

Table 1: Performance Fee

Iteration 1			Iteration 2			Iteration 3		
Rating	# Pri 3 STRs	Fee %	Rating	# Pri 3 STRs	Fee %	Rating	# Pri 3 STRs	Fee %
Excellent	0	2.00	Excellent	0	2.00	Excellent	0	2.00
Very Good	1	1.75	Very Good	1	1.83	Very Good	1	1.88
Very Good	2	1.50	Very Good	2	1.67	Very Good	2	1.75
Very Good	3	1.25	Very Good	3	1.50	Very Good	3	1.63
Satisfactory	4	1.00	Very Good	4	1.33	Very Good	4	1.50
Satisfactory	5	0.75	Very Good	5	1.17	Very Good	5	1.38
Satisfactory	6	0.50	Satisfactory	6	1.00	Very Good	6	1.25
Satisfactory	7	0.25	Satisfactory	7	0.83	Very Good	7	1.13
Marginal	8	0.00	Satisfactory	8	0.67	Satisfactory	8	1.00
Marginal	9	0.00	Satisfactory	9	0.50	Satisfactory	9	0.88
Marginal	10	0.00	Satisfactory	10	0.33	Satisfactory	10	0.75
Marginal	11	0.00	Satisfactory	11	0.17	Satisfactory	11	0.63
Unsatisfactory	≥12	0.00	Marginal	12	0.00	Satisfactory	12	0.50
			Marginal	13	0.00	Satisfactory	13	0.38
			Marginal	14	0.00	Satisfactory	14	0.25
			Marginal	15	0.00	Satisfactory	15	0.13
			Unsatisfactory	≥16	0.00	Marginal	16	0.00
						Marginal	17	0.00
						Marginal	18	0.00
						Marginal	19	0.00
						Unsatisfactory	≥20	0.00

The Government will use a Microsoft Excel spreadsheet (RFP attachment 5, G-TSCMIS Incentive Fee Calculator) to calculate the fee by entering the number of STRs at each level for each iteration into designated fields. The spreadsheet uses the formula in Equation 1 when the assessment is Very Good or Satisfactory.

Equation 1

$$\boxed{PF_{x}= PF_{M}(1- STR_{P3}/ STR_{P3M})}$$

Where:

- PF_x = performance fee for iteration x (1,2,3),
- PF_M = maximum performance fee,
- STR_{P3} = # of Priority 3 STRs for each iteration, and
- STR_{P3M}=Max allowed Priority 3 STRs +1 (see Table 1)

The Government will calculate the performance fee after Government acceptance of each iteration. The total performance fee (up to 6%) will be cumulative and calculated following Government testing of iteration 3 software.

4.3 Cost Performance. The Contractor will earn a percent of the cost incentive fee pool based on cost performance. The Government will make incentive fee calculations after the Contractor posts all invoices from the incentive fee period, including any invoices associated with Government Acceptance Tests, in WAWF. The Government will calculate the incentive fee by adding to or subtracting from the target fee amount up to the maximum fee or down to the minimum fee. An actual cost over the target cost for Release 3 delivery as shown in Section B of the contract will result in a reduction of fee received by a defined percentage of the amount actual cost is over target cost. An actual cost under the target cost will increase the amount of fee received by a defined percentage of the amount actual cost is under target cost. *Excellent* cost performance, defined as under-running the target cost at the lower end of the range of incentive effectiveness, will earn fee up to the maximum value of the cost incentive fee pool. *Very good* cost performance will be defined as an underrun earning fee less than the maximum cost incentive fee and greater than the target cost incentive fee. *Satisfactory* cost performance, defined as achieving target cost, will earn the target value of the cost incentive fee pool. *Marginal* cost performance will be defined as an overrun earning fee less than the target cost incentive fee and greater than the minimum cost incentive fee. *Unsatisfactory* cost performance, defined as overrunning the targeted estimated cost at the higher end of the range of incentive effectiveness, will earn the minimum value of the cost incentive fee pool. For cost incentive fee calculations, the Contractor’s share is included in Section B of the contract.

The Government will use a Microsoft Excel spreadsheet (RFP attachment 5, G-TSCMIS incentive fee calculator) to calculate the cost incentive fee. The following three formulas are contained in the spreadsheet.

Equation 2

$$\boxed{CV = C_T - C_A}$$

Where:

C_T = target cost,
C_A = actual cost, and
CV = difference between target and actual costs

The first cost incentive fee formula, Equation 2, determines the amount of the overrun or underrun by subtracting the actual cost from the target cost.

Equation 3

$$\boxed{KS(CV) = \begin{cases} CV \times SR_U, & if\ CV > 0 \\ CV \times SR_O, & if\ CV \le 0 \end{cases}}$$

Where:

KS = contractor’s share of an overrun or underrun,
SR_U = contractor’s share ratio for an underrun (20%), and
SR_O = contractor’s share ratio for an overrun (50%)

The second cost incentive fee formula, Equation 3, determines how much of the overrun or underrun will be added or subtracted from the target incentive fee.

Equation 4

$$FE_C(KS) = \begin{cases} CF_M, & if\ KS \geq CF_M - CF_T \\ CF_N, & if\ KS \leq CF_N - CF_T \\ KS + CF_T, & if\ KS < CF_M - CF_T \wedge KS > CF_N - CF_T \end{cases}$$

Where

FE_C = cost fee earned,
CF_M = maximum cost fee,
CF_T = target cost fee, and
CF_N = minimum cost fee

The third formula, Equation 4, calculates the total cost fee earned. The top "if" statement is true when the contractor's share of an underrun is greater than the maximum cost fee minus the target cost fee and results in the Contractor earning the maximum cost fee. The middle "if" statement is true when the contractor's share of an overrun is less than the minimum cost fee minus the target cost fee and results in the Contractor earning the minimum cost fee. The bottom "if" statement is true when the contractor's share of an underrun or overrun is less than the maximum cost fee minus the target cost fee and greater than the minimum cost fee minus the target cost fee and results in the contractor's share of the underrun or overrun being applied to the target cost fee.

5. EVALUATION PERIODS FOR COMPUTATION OF INCENTIVE FEE

Table 2 identifies the evaluation period and corresponding incentive fee pool for the contract. The incentive fee periods will span the time between the start of the CLIN and Iteration 3 delivery. The minimum, target, and maximum incentive fees; share ratios; target costs; and range of incentive effectiveness for the purpose of calculating incentive fee are set forth in Section B of the contract.

While technical performance evaluation will take place for each of the 3 separate software iterations, fee will not be paid until Iteration 3 is delivered.

Table 2

CLIN	Release Evaluation Period	Available Target Fee Amount
0001	Award date through acceptance date for Release 3 The Government will measure technical performance using the number of outstanding STRs at initial delivery for each iteration. The number of STRs is cumulative for each iteration. The Government will measure the cost performance incentive by comparing the actual costs incurred and invoiced for the Release against the target cost.	The target fee amount is listed in Section B of the contract. 50% of the available incentive fee represents the performance incentive pool which is split equally across 3 iterations. 50% of the available incentive fee represents the cost incentive pool.

6. CHANGES AND/OR MODIFICATIONS TO INCENTIVE FEE PLAN

6.1 Method for Changing the Incentive Fee Plan. Proposed changes shall be handled in accordance with the changes clause of the contract.

7. INCENTIVE FEE PAYMENT

7.1 Incentive Fee is not subject to the “Allowable Cost and Payment” clause of the contract. Estimated costs allocated to the incentive fee portion of the CPIF contract CLIN of the contract shall not be included as part of the funds remaining as available for the purpose of the Limitation of Cost Notice requirements. However, the Contractor shall be entitled to incentive fee as a prorated share of any work completed, as mutually agreed upon under the contract, if the Government terminates the contract for convenience.

APPENDIX A: INCENTIVE FEE SCENARIOS WITH CALCULATIONS

Scenario 1 – Cost Overrun: Given a target cost of $100, incentive fee split into equal pools for cost and performance, target fee percent of 9%, minimum fee percent of 0%, maximum fee percent 12%, underrun share ratio of 20%, and overrun share ratio of 50%, calculate the cost incentive fee awarded if the actual costs are $108.

$$CF_T = \$100 \times 9\% \times 50\% \qquad CF_M = \$100 \times 12\% \times 50\% \qquad CF_N = \$100 \times 0\% \times 50\%$$
$$CF_T = \$4.50 \qquad CF_M = \$6.00 \qquad CF_N = \$0$$

$$CV = C_T - C_A$$
$$CV = \$100 - \$108$$
$$CV = -\$8$$

$$KS(CV) = \begin{cases} CV \times SR_U, & if\ CV > 0 \\ CV \times SR_O, & if\ CV \le 0 \end{cases}$$
$$KS(-\$8) = -\$8 \times 50\%$$
$$KS(-\$8) = -\$4$$

$$FE_C(KS) = \begin{cases} CF_M, & if\ KS \ge CF_M - CF_T \\ CF_N, & if\ KS \le CF_N - CF_T \\ KS + CF_T, & if\ KS < CF_M - CF_T \wedge KS > CF_N - CF_T \end{cases}$$

The bottom if statement is applicable because -$4 < $1.50 and -$4 > -$4.50.

Therefore,

$$FE_C(-\$4) = -\$4 + \$4.50$$
$$FE_C(-\$4) = \$0.50$$

$0.50 of cost fee would be earned under this scenario.

<u>Scenario 2 – Cost Underrun</u>: Given a target cost of $100, incentive fee split into equal pools for cost and performance, target fee percent of 9%, minimum fee percent of 0%, maximum fee percent 12%, underrun share ratio of 20%, and overrun share ratio of 50%, calculate the cost incentive fee awarded if the actual costs are $88.

$$CF_T = \$100 \times 9\% \times 50\% \qquad CF_M = \$100 \times 12\% \times 50\% \qquad CF_N = \$100 \times 0\% \times 50\%$$
$$CF_T = \$4.50 \qquad CF_M = \$6.00 \qquad CF_N = \$0$$

$$CV = C_T - C_A$$
$$CV = \$100 - \$88$$
$$CV = \$12$$

$$KS(CV) = \begin{cases} CV \times SR_U, & if\ CV > 0 \\ CV \times SR_O, & if\ CV \le 0 \end{cases}$$
$$KS(\$12) = \$12 \times 20\%$$
$$KS(\$12) = \$2.40$$

$$FE_C(KS) = \begin{cases} CF_M, & if\ KS \ge CF_M - CF_T \\ CF_N, & if\ KS \le CF_N - CF_T \\ KS + CF_T, & if\ KS < CF_M - CF_T \wedge KS > CF_N - CF_T \end{cases}$$

The top if statement is applicable because $2.40 > $1.50 .

Therefore,

$$FE_C(\$2.40) = \$6.00$$

$6.00 of cost fee would be earned under this scenario.

<u>Scenario 3 – Cost Overrun</u>: Given a target cost of $100, incentive fee split into equal pools for cost and performance, target fee percent of 9%, minimum fee percent of 0%, maximum fee percent 12%, underrun share ratio of 20%, and overrun share ratio of 50%, calculate the cost incentive fee awarded if the actual costs are $120.

$$CF_T = \$100 \times 9\% \times 50\% \qquad CF_M = \$100 \times 12\% \times 50\% \qquad CF_N = \$100 \times 0\% \times 50\%$$
$$CF_T = \$4.50 \qquad CF_M = \$6.00 \qquad CF_N = \$0$$

$$CV = C_T - C_A$$
$$CV = \$100 - \$120$$
$$CV = -\$20$$

$$KS(CV) = \begin{cases} CV \times SR_U, & if\ CV > 0 \\ CV \times SR_O, & if\ CV \le 0 \end{cases}$$
$$KS(-\$20) = -\$20 \times 50\%$$
$$KS(-\$20) = -\$10$$

$$FE_C(KS) = \begin{cases} CF_M, & if\ KS \ge CF_M - CF_T \\ CF_N, & if\ KS \le CF_N - CF_T \\ KS + CF_T, & if\ KS < CF_M - CF_T \wedge KS > CF_N - CF_T \end{cases}$$

The middle if statement is applicable because -$10 ≤ -$6.00.

Therefore,

$$FE_C(-\$10) = \$0$$

$0 of cost fee would be earned under this scenario.

<u>Scenario 4 – Performance Incentive with STRs</u>: Given a target cost of $100, incentive fee split into equal pools for cost and performance, target fee percent of 9%, minimum fee percent of 0%, maximum fee percent 12%, and a fee determination as described in this plan, calculate the performance incentive fee earned.

Iteration 1: Delivery contains 0 Priority 1 and 2 STRs, and 5 Priority 3 STRs
Iteration 2: Delivery contains 0 Priority 1 and 2 STRs, and 6 Priority 3 STRs
Iteration 3: Delivery contains 0 Priority 1, 2 and 3 STRs

$$PF_M = \$100 \times 12\% \times 50\%$$
$$PF_M = \$6.00$$
$$PF_M(IterationX) = \$6.00/3$$
$$PF_M(IterationX) = \$2.00$$

Recall **Equation 1**: $PF_{x=} PF_M(1- STR_{P3}/ STR_{P3M})$

This means:

Iteration 1

$$PF_{1=} 2.0(1- 5/8)$$
$$PF_1=\$0.75$$

Iteration 2

$$PF_{2=} 2.0(1- 6/12)$$
$$PF_2=\$1.00$$

Iteration 3

$$PF_{3=} 2.0(1- 0/16)$$
$$PF_3=\$2.00$$

Therefore, the total performance fee earned under this scenario would be $3.75, and the Contractor would also be eligible to receive cost fee.