PGI 216.401 General.

(c) Incentive contracts. DoD has established the Award and Incentive Fees Community of Practice (CoP) under the leadership of the Defense Acquisition University (DAU). The CoP serves as the repository for all related materials including policy information, related training courses, examples of good award fee arrangements, and other supporting resources. The CoP is available on the DAU Acquisition Community Connection at https://acc.dau.mil/awardandincentivefees. Additional information can be found on the MAX website maintained by the Office of Management and Budget at: https://max.omb.gov.

(e) Award-fee contracts.

(i) It is DoD policy to utilize objective criteria, whenever possible, to measure contract performance. In cases where an award-fee contract must be used due to lack of objective criteria, the contracting officer shall consult with the program manager and the fee determining official when developing the award-fee plan. Award-fee criteria shall be linked directly to contract cost, schedule, and performance outcomes objectives.

(ii) Award fees must be tied to identifiable interim outcomes, discrete events or milestones, as much as possible. Examples of such interim milestones include timely completion of preliminary design review, critical design review, and successful system demonstration. In situations where there may be no identifiable milestone for a year or more, consideration should be given to apportioning some of the award fee pool for a predetermined interim period of time based on assessing progress toward milestones. In any case, award fee provisions must clearly explain how a contractor’s performance will be evaluated.

(iii) The head of the contracting activity for each defense agency shall retain the D&F for (a) all acquisition category (ACAT) I or II) programs, and (b) all non-ACAT I or II contracts with an estimated value of $50 million or more. The head of the contracting activity shall forward the D&Fs for ACAT I programs to Defense Pricing, Contracting, and Acquisition Policy/Contract Policy directorate (DPCAP/CP) within 1 month of the end of the quarter. Copies of D&Fs on all contracts shall also be included in the contract file.

Parent topic: PGI 216.4 -INCENTIVE CONTRACTS