Contract Types/Pricing Arrangements Guideline-1.4.G (08/09/04)

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This guideline was extensively revised to address administrative changes throughout the document.

Definitions

The contract pricing arrangement is basically distinguished by the degree of financial and performance risk allocated between Sandia and the Contractor. There are several types of pricing arrangements that can be negotiated by the Sandia Contracting Representative (SCR). These include:

- **Cost-Reimbursement (CR)** contracts provide for reimbursement to the Contractor of allowable incurred costs to the extent prescribed in the contract. This pricing arrangement permits contracting for efforts that might otherwise present too great a financial risk to Contractors. However, it does provide the Contractor only a minimum of incentive to control costs. These contracts establish an estimate of total cost for the purpose of:

- establishing a limit on the amount of allowable costs that may be incurred in performing the effort,
- obligating government funds to pay for the efforts being authorized, and
- establishing:
  - a base for determination of the Contractor's fee for successful performance of the contract, or
  - an estimate of the expense to be borne by all parties to a Cost-Sharing contract.

- A **Cost-Plus-Fixed-Fee (CPFF)** contract allows the Contractor to receive reimbursement of allowable costs, up to a specified ceiling amount, plus a negotiated fee (i.e., fixed dollar amount) that is fixed at the inception of the contract. This fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract. A CPFF contract may describe:
  - the scope of work by stating a goal or target and specifying an end product, or
  - the scope of work in general terms and obligate the Contractor to devote a specified level of effort for a stated time period.
- A **Cost-Plus-Incentive-Fee (CPIF)** contract provides for reimbursement of allowable costs to the Contractor, up to a specified amount, plus a fee which is adjusted by a formula in accordance with the relationship which total allowable costs bear to target costs. Under this type of contract, there is negotiated initially a target cost, a target fee, a minimum and maximum fee, and a fee adjustment formula. After performance of the contract, the fee payable to the Contractor is determined in accordance with the formula and is dependent upon whether actual costs meet, exceed, or fall below the target costs.
  - Actual cost that meets the target will result in the target profit or fee.
  - Actual cost that exceeds the target will result in downward adjustment of target profit or fee to a specified minimum.
  - Actual cost that is below the target will result in upward adjustment of target profit or fee to a specified maximum.

Note: Similarly, this type of contract may include performance incentive provisions providing for upward or downward fee adjustment as an incentive for the Contractor to meet or surpass negotiated performance targets. Both **cost** and **performance** provisions may be included in the same contract, when deemed desirable by the SCR.

- A **Cost-Plus-Award-Fee (CPAF)** contract is one that provides a fee consisting of a base fee (which may be zero), fixed at inception of the contract, and an award fee, determined at periodic milestones set forth in the Contractor after completion of the contract and based upon Sandia's evaluation of performance.

- A **Cost-Sharing (CS)** contract is one in which the Contractor receives no fee and is reimbursed only for an agreed portion of its allowable costs. The contract shall clearly define the performance by the Contractor for Sandia and shall state the total estimated cost and that portion of the cost to be borne by Sandia.

- A **Cost-Without-Fee (CWF)** contract is a Cost-Reimbursement contract in which the Contractor receives no fee. The benefit to the Contractor in accepting such a contract may be technology gained.

- A **Firm-Fixed Price (FFP)** contract provides for payment to the Contractor at a FFP or prices by

    - unit of product or measure,
    - lot of product or material,
    - lump sum for total contract performance, or
    - lump sum for attainment of milestones or work phases,

  and is not subject to any adjustment based upon the Contractor's cost of performance. FFP contracts impose the maximum risk on the Contractor and minimum administrative burden on Sandia, and should therefore be the preferred method of contracting.

- A **Fixed-Price Contract with Escalation (FPE)** (economic price adjustment) establishes a fixed contract price, but provides that such price may be adjusted either upward or downward upon the occurrence of specified contingencies. Such a contract limits some of the Contractor's risk and may reduce Sandia's overall cost if the Contractor's contingency requirements are reduced as a result of the decreased financial risk.

- A **Fixed-Price Incentive (FPI)** contract is a fixed-price contract that provides for adjusting profit and establishing the final contract price by application of a formula based on the relationship of final total negotiated cost to total target cost. The final price is subject to a price ceiling, negotiated at the outset. FPI contracts include both firm-target-type contracts and successive-target-type contracts.

- A **Time and Material (T&M)** contract provides for payments up to a ceiling price on the basis of:

    - direct labor hours at specified fixed hourly rates which include:

        - wages,
        - overhead,
        - General and Administrative (G&A), and

- profit,

- materials at cost, including, if appropriate, material handling costs not recovered in the labor rates, and G&A as part of material costs,
- travel and applicable G&A if not recovered in the labor rates,
- subcontracts at cost including, if appropriate, Subcontractor's administrative costs,
- computer usage,
- telephone charges (other direct charges), and
- equipment usage.

A **Labor-Hour (LH) contract** is a variation of a T&M contract, differing only in that the Contractor does not supply materials.

Note: A Contract Characteristics Summary Table may be found in "Guideline Documents."

Factors Impacting Contract Type/Pricing Arrangement Selection - 1.4.G.1

There are many factors that the SCR should consider in selecting and negotiating the contract type/pricing arrangement. They include the following:

- **Price competition**. Normally, effective price competition results in realistic pricing, and a fixed-price arrangement which is ordinarily in Sandia's interest. Competition establishes an open market price under a FFP arrangement that places minimal financial and performance risk on Sandia.
- **Price analysis**. Price analysis, with or without competition, may provide a basis for selecting the pricing arrangement. The degree to which price analysis can provide a realistic pricing standard should be carefully considered.
- **Cost analysis**. In the absence of effective price competition and if price analysis is not sufficient, the cost estimates of the Offeror and Sandia provide the basis for negotiating contract pricing arrangements. It is essential that the uncertainties involved in performance and their possible impact upon costs be identified and evaluated so that the pricing arrangement places a reasonable degree of cost responsibility upon the Contractor can be negotiated.
- **Type and complexity of the requirement**. Complex requirements, particularly those unique to Sandia, usually result in greater risk assumption by Sandia. This is especially

true for complex research and development contracts, when performance uncertainties or the likelihood of changes makes it difficult to estimate performance costs in advance. As a requirement recurs or as quantity production begins, the cost risk should shift to the Contractor, and a fixed-price contract should be considered. When the Statement of Work (SOW), including design and performance specifications, is not definite and carries a great deal of performance risk, the Contractor may include an unacceptably large contingency in a FFP contract. With a cost-type contract, Sandia assumes the performance risk.

- **Urgency of the requirement**. If urgency is a primary factor, Sandia may choose to assume a greater proportion of risk or it may offer incentives to ensure timely contract performance.

- **Period of Performance (POP) or length of production runs**. In times of economic uncertainty, contracts extending over a relatively long period may require economic price adjustment terms. The longer the POP, the more difficult it is to estimate the costs associated with contract performance in future years. The Contractor may include a large contingency in a FFP contract. In a cost-type or FFP contract with an escalation clause, Sandia assumes this performance risk.

- **Contractor's technical capability and financial responsibility.**

- **Adequacy of the Contractor's accounting system.** The Contractor's accounting system must permit timely development of all necessary cost data in the form required by the proposed pricing arrangement. This factor may be critical when the pricing arrangement requires price revision while performance is in progress, or when a CR contract is being considered and all current or past experience with the Contractor has been on a fixed-price basis. Unless the Contractor's accounting system is adequate to account for costs, a FFP contract may be required.

  Sandia Auditing must determine if the Contractor accounting systems are adequate to support the administration of non-fixed price contracts. Sandia Auditing approval must be obtained prior to the placement of a CR, T&M, or LH contract with a Contractor whose accounting practices are unknown. (See Section 1.4.G.4 – Auditing Requirements.)

- **Concurrent contracts**. If performance under the proposed contract involves concurrent operations under other contracts, the impact of those contracts, including their pricing arrangements, should be considered.

- **Extent and nature of proposed subcontracting**. If the Contractor proposes extensive subcontracting, a pricing arrangement reflecting the actual risks to the prime Contractor should be selected.

- **Acquisition history.** Contractor risk usually decreases as the requirement is repetitively acquired. Also, product descriptions or descriptions of services to be performed can be defined more clearly.

- **Sandia desired control over contract performance**. With a FFP pricing arrangement, Sandia relinquishes control of contract performance to the Contractor. When Sandia needs to control an important facet of performance, a cost-type pricing arrangement may be the most appropriate. (**Note:** When Sandia chooses to maintain control of contract performance, Sandia also assumes more risk.)

Firm-Fixed Price Pricing Arrangements - 1.4.G.2

When the SCR anticipates that the price will be the subject of negotiation, the SCR may ask the Contractor in the solicitation to submit a detailed breakdown of its offered price. (See Guideline 3.2 – Contractor Price/Cost Considerations.) Section II Standard Terms and Conditions (Ts&Cs) for Fixed-Price Arrangements, SF 6432-FP, apply to all fixed-price arrangements except construction contracts. General clerical procedures for processing contracts are covered in Guideline 2.2 – Contract/Purchase Order System.

Fixed-Price Arrangement Requirements - 1.4.G.2.a

The use of FFP arrangements generally is appropriate in situations where Sandia is procuring:

- commercial products,
- commercial-type products, or
- other supplies or services on the basis of reasonably definite specifications when the SCR can establish a fair and reasonable price at the outset (see Guideline 3.2).

The FFP arrangement should be utilized if the procurement does not clearly meet the criteria established herein, but:

- the Contractor prefers FFP (e.g., the Contractor's accounting system may not be suitable for a cost-type arrangement), and
- the SCR determines that a fair and reasonable contract price can be obtained.

Purchases of indefinite quantities (product or service) priced by unit shall state an estimated or ceiling amount as the commitment. A requisition and revision is required to finalize the authorized funds if the final contract amount is expected to deviate from the SCR's commitment authority specified in Guideline 10.2 – Commitments and Approvals.

Economic Price Adjustments - 1.4.G.2.b

The use of an economic price adjustment arrangement is appropriate when the following conditions exist:

- an extended POP and instability of market and labor conditions, and
- contingencies that would otherwise be included in the contract price can be identified and covered in the contract.

The SCR shall not use a fixed-price arrangement with escalation unless the SCR determines that it is necessary to protect the Contractor and Sandia against significant fluctuations in labor or material costs.

There are three general types of economic price adjustments:

- Adjustments based on established prices include:
  - price adjustments which are based on increases or decreases from an agreed-upon level in published or otherwise established prices of specific items or the contract end items, and
  - price adjustments based on established prices which should normally be restricted to industry-wide contingencies.
- Adjustments based on actual costs of labor or material include:
  - price adjustments which are based on increases or decreases in specified costs of labor or material that the Contractor actually experiences during contract performance.
- Adjustments based on cost indexes of labor or material include:
  - price adjustments which are based on increases or decreases in labor or material cost standards or indexes that are specifically identified in the contract, and
  - price adjustments based on labor and material costs which should be limited to contingencies beyond the Contractor's control.

In establishing the base level from which adjustments will be made, the SCR shall:

- ensure that contingency allowances are not duplicated by inclusion in both the base price and the adjustment requested by the Contractor, and
- obtain adequate information in contracts that do not require submission of cost or pricing data.

Fixed-Price Incentive (FPI) Arrangements - 1.4.G.2.c

Fixed-Price Incentive arrangements are suitable when the goods or services required can be procured at a lower cost or with an improved delivery or enhanced technical performance by relating the Contractor's profit or fee to the overall performance.

An FPI arrangement may be used **only** when a determination has been made by the SCR that:

- the arrangement will be less costly than any other type, or
- it is impracticable to obtain supplies or services of the kind or quality required with another pricing arrangement.

Fixed-Price Arrangements with Award Fees - 1.4.G.2.d

Award-fee provisions may be used in fixed-price arrangements when Sandia wishes to motivate a Contractor and other incentives cannot be used because Contractor performance cannot be measured objectively. The contract shall:

- establish a fixed-price (including normal profit) for the effort that will be paid for satisfactory contract performance. Award fee earned (if any) will be paid in addition to the fixed-price; and
- provide for periodic evaluation of the Contractor's performance against an award-fee plan.

A solicitation contemplating award of a fixed-price arrangement with award fee shall not be issued unless the following conditions exist:

- the administrative costs of conducting award-fee evaluations are not expected to exceed the expected benefits,
- procedures have been established for conducting the award-fee evaluation, and
- the award-fee plan has been established.

Cost-Reimbursement (CR) Arrangements - 1.4.G.3

A CR arrangement provides for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of the total cost for the purpose of obligating funds and establishing a ceiling that the Contractor may not exceed (except at its own risk) without approval of the SCR.

CR arrangements fall into one of these specific categories:

- Cost-Plus-Fixed-Fee,
- Cost-Plus-Incentive-Fee,

- Cost-Plus-Award-Fee,
- Cost-Sharing,
- Cost-Without-Fee with Commercial Contractors, or
- Cost-No-Fee with Educational/Nonprofit Institutions.

A CR arrangement is suitable for use when:

- uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price arrangement, or
- the SCR determines that the financial risk of the contract should be assumed by Sandia.

A CR arrangement may be used when:

- the Contractor's accounting system is adequate for determining and allocating allowable costs applicable to the contract,
- appropriate surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used,
- a determination has been made by the SCR that:
    - this pricing arrangement is likely to be less costly,
    - it is impractical to obtain supplies or services of the kind or quality required without the use of this pricing arrangement, or
    - the Contractor is unable to utilize a more auspicious pricing arrangement, or
- statutory limitations on profit or fee are complied with.

Cost-Plus-Fixed-Fee (CPFF) Arrangements - 1.4.G.3.a

A CPFF arrangement is suitable for use when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price arrangement and, for example:

- the contract is for the performance of research or preliminary exploration or study, and the level of effort required cannot be accurately estimated; or
- the contract is for development and testing, and using a Cost-Plus-Incentive-Fee (CPIF) or award fee arrangement is not practical.

A CPFF arrangement may be used when the Contractor is required to devote a specified level of effort for a stated time period. In a situation where the Contractor has expended reasonable effort and the work is not completed, but the performance is considered satisfactory by Sandia, the fixed-fee is payable at the expiration of the agreed-upon POP.

Cost-Plus-Incentive-Fee (CPIF) Arrangements - 1.4.G.3.b

A CPIF arrangement is appropriate when:

- uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price arrangement,
- a target cost and a fee-adjustment formula can be negotiated that are likely to motivate the Contractor to manage costs effectively, and
- when the additional administrative effort and cost are justified by the expected benefits.

Due to the fact that the amount of the incentive fee is not yet determined in a CPIF arrangement, the Contractor's interim invoices for fee should be based on the minimum achievable fee.

Cost-Plus-Award-Fee (CPAF) Arrangements - 1.4.G.3.c

A CPAF arrangement is appropriate for use when:

- the work to be performed is such that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance, or schedule,
- the likelihood of meeting acquisition objectives will be enhanced by using a contract that effectively motivates the Contractor toward exceptional performance and provides Sandia with the flexibility to evaluate both actual performance and the conditions under which it was achieved, and
- any additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits.

Caution: Prior to using a CPAF arrangement, the SCR should consult with the Procurement Department Manager.

Due to the fact that the amount of the award fee is not fixed at the inception of the contract, the Contractor's interim invoices for fee should be based on the minimum achievable fee if such fee has been established.

Cost-Sharing (CS) Arrangements - 1.4.G.3.d

A CS arrangement may be used when the Contractor agrees to absorb a portion of the costs, in the expectation of compensating benefits such as technology gained in working with Sandia.

Cost-Other-Fee (COF) Arrangements with Commercial Contractors - 1.4.G.3.e

A COF arrangement may be appropriate for research and development work where a cost-type arrangement is needed and there is no fee or profit to be addressed.

Cost-Other (CO) Arrangements with Educational Institutions - 1.4.G.3.f

A CO arrangement is typically used for research and development work with nonprofit educational institutions. The SOW may include the name of the Principal Investigator, and the Contractor's proposal may be incorporated into the contract by reference.

Cost-Plus-Percentage of Cost (CPPC) - 1.4.G.3.g

No contract may contain a provision for Cost-Plus-Percentage of Cost (CPPC) where the profit/fee is based on a percentage of the actual cost incurred. This method of determining profit/fee has been made illegal by an act of Congress.

The following criteria can be used by the SCR to determine whether a contract has a CPPC arrangement:

- payment is on a predetermined percentage rate,
- the predetermined percentage rate is applied to actual performance costs,
- the Contractor's entitlement is uncertain at the time of contracting, and
- the Contractor's entitlement increases commensurately with increased performance costs.

Other Requirements for Cost-Type Arrangements - 1.4.G.4

Auditing Requirements - 1.4.G.4.a

The SCR may need to consult with the Auditing Department prior to entering into a cost-type arrangement to:

- ensure that the Contractor's accounting system is adequate to permit an accurate determination and allocation of costs, and
- determine if there are any items of cost that require specific coverage in the contract.

Note: During the negotiation stage, it will be necessary for the SCR to consult with Auditing in all cases where the Contractor requests special considerations affecting either the audit or allowable cost provisions.

If...	Then...
the Contractor is one with which Sandia has had no previous experience under CR arrangements,	the SCR shall request that Auditing: - survey and audit Contractor's accounting system, and - make recommendations to the SCR. (See Guideline 3.2 - Contract Price/Cost Considerations.)
Sandia has done or is currently doing business with the Contractor on a CR basis and a current rate sheet is in effect (see Section 1.4.G.1 for additional information),	there is no need to contact Auditing.

Financial Approval - 1.4.G.4.b

For purposes of determining the appropriate financial approval entity, SCRs should not consider periodic payments for CR arrangements as progress payments unless the Contractor is not billing on the basis of actual work performed (see Guideline 3.5 – Financial Evaluation of Contractors).

Cost/Fee Considerations - 1.4.G.4.c

Estimated Cost - 1.4.G.4.c.1

All cost-type arrangements must contain an estimate of the total cost for performing the work. In requesting a quotation on a cost-type basis, the SCR shall instruct the Contractor to submit a detailed breakdown of its estimated cost on Sandia forms SF 6432-A through SF 6432-AF. Equivalent information on similar forms may be accepted by the SCR.

Travel Regulations - 1.4.G.4.c.2

With the sole exception of CNF arrangements with educational institutions, the maximums specified under the Federal Travel Regulations apply to Sandia CR arrangements. Costs claimed for travel costs in excess of the maximums allowed by the regulation will be disallowed as reimbursable costs. SCRs should be alert to the maximums so that appropriate amounts are included in the estimated costs used as the basis for fee negotiation. Current maximums can be obtained from the Procurement Policies and Procedures Team.

Fee Considerations - 1.4.G.4.c.3

Fees negotiated on CPFF or CPIF arrangements shall:

- be based upon the scope and character of the work to be performed by the Contractor,
- be fair and reasonable, and

- not exceed amounts prescribed by law.

With the exception of CPFF arrangements, there are no precise or conclusive rules for determining the amount of fee allowable. Cost alone is not a true measure in the determination of a reasonable fee. Generally, the fee is strongly influenced by the amount of risk involved. Determination of a fair and reasonable fee, however, is based on consideration of all factors which affect performance of the contract. (See Guideline 3.2 – Contractor Price/Cost Considerations.)

Fee Agreements with Contractors - 1.4.G.4.c.4

The fee shall be determined separately for each contract and subsequent contract revisions. "Across-the-board" agreements with Contractors as to rates of fee shall not be made.

Fee Adjustments - 1.4.G.4.c.5

Once a fee has been established in a particular contract, it may not be adjusted by reason of errors in the computation of estimated cost or differences between such estimated cost and the actual cost of performing the work. The fee may be adjusted upward or downward by reason of a material change in the amount or character of work to be performed (e.g., certain changes in design, increases in quantity, and partial terminations).

Fee Limitations - 1.4.G.4.c.6

The SCR shall not negotiate a price or fee that exceeds the following fee limitations:

If the Pricing arrangement is...	and the work is...	Then the fee limitation is...
CPFF, CPIF, or T&M/LH	experimental, developmental or research,	15% of the estimated cost of the contract, excluding fee.
CPFF, CPIF, or T&M/LH	production and services,	10% of the estimated cost of the contract excluding fee.

Weighted Guidelines - 1.4.G.4.c.7

One tool that may be used for fee determination is the use of weighted guidelines. (See Guideline 3.3 – Profit and Fee.)

Plant Facilities Tooling - 1.4.G.4.c.8

Normally, Sandia does not authorize Contractors to procure standard plant facilities, equipment, or tooling as an allowable cost item against Sandia contracts. However, when the situation might justify such authorization, there should be no fee allowed with respect to such procurements. Such items should be clearly detailed in Section I of the contract and justified in the Procurement Action Summary (PAS). (See Guideline 10.4 – Procurement Action Summaries.)

Special Clauses and Practices - 1.4.G.4.c.9

CR arrangements with educational institutions for research and development are subject to the following:

- the use of approved predetermined fixed-rates for overhead may be authorized in contracts with educational institutions. The use of such rates is not mandatory.

Section II Terms and Conditions (Ts&Cs) - 1.4.G.4.c.10

The SCR shall incorporate the appropriate Ts&Cs in each CR arrangement as indicated below:

If the contract contains a...	Then the following Section II Ts&Cs apply...
- Cost-other arrangement with a commercial Contractor, - Cost-Sharing arrangement, - Cost-Plus-Fixed-Fee pricing arrangement - Cost-Plus-Incentive Fee arrangement, - Cost-Plus-Award-Fee arrangement, - Non-Profit Institution arrangement (excluding educational institutions)	Standard Terms and Conditions for Cost-Reimbursement Contracts, SF 6432-CR.
Cost-Arrangement with educational institutions	Standard Terms and Conditions for All Cost-Reimbursement or Ordering Agreements with Educational Institutions, SF 6432-EI.

Time and Materials (T&M) or Labor-Hour (LH) Pricing Arrangements - 1.4.G.5

The T&M or LH pricing arrangement is used primarily for services, but may be used for product in some circumstances. It is used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate total costs with any reasonable degree of confidence.

Examples of procurement situations which may be appropriate for T&M/LH pricing arrangements include:

- repair,
- maintenance,

- overhaul work, or
- personnel services (guards, janitors, clerical support, technicians, etc.).

A T&M/LH pricing arrangement may be used:

- only if the Contractor's cost accounting system can support a T&M pricing arrangement,
- only after the SCR makes a determination that it is the most appropriate pricing arrangement, or
- only if the contract includes a ceiling price that the Contractor exceeds only at his/her own risk.

  Note: The SCR shall document in the PAS the reasons for and the amount of any change in the ceiling price.

Negotiations - 1.4.G.5.a

The SCR shall consider the following when negotiating rates:

- The billing rate for each category of direct labor is a single, firm rate. However, negotiation of elements of the rate is appropriate. Also, the necessary categories of labor to be utilized is a subject for negotiation.
- Billing rates are normally established for the contract performance period. However, it may be appropriate to negotiate rates for a specific period of time less than the contract performance period with a provision in the contract that billing rates will be renegotiated at a specific time in the future. In the absence of such contract provision, the billing rates are applicable for the entire contract performance period.
- The profit included in a billing rate may be based on an acceptable method of profit negotiation such as weighted guidelines with consideration given to the Contractor's (minimal) risk on one hand and the resources (facilities, personnel, expertise, etc.) offered on the other hand.

Note: Profit in excess of 10 percent in each labor rate requires approval by the applicable Procurement Department Manager and can only be for experimental, developmental or research work.

LH/Rate Schedules - 1.4.G.5.b

The LH/rate schedules, particularly for the nonstandard hours at premium rates such as:

- shift differential,
- overtime,
- holiday time,

- time and one-half, or
- double time, etc.,

shall be clearly defined in the contract if appropriate. If a single rate is used, the amount paid will be that rate times the number of hours worked, regardless of the time or day.

Warning: Laws governing overtime compensation vary from state-to-state. In addition, union agreements may mandate when overtime compensation is required to be paid to a Contractor's employees.

Equipment Rate Schedules - 1.4.G.5.c

Equipment rate schedules shall also be clearly defined in the contract, if appropriate. These rate schedules shall include:

- standard rates,
- minimum rates, or
- standby rates, etc.

Documents Incorporated by Reference - 1.4.G.5.d

Documents the SCR should consider incorporating by reference include:

- Wage Determinations per the Davis-Bacon Act,
- Wage Determinations per the Service Contract Act,
- Property Billable to Sandia Laboratories, Form SF 6110-AA, and
- Drawings, Specifications, and Engineering Procedures.

Subcontracts - 1.4.G.5.e

The Contractor's proposed subcontracts must be approved at the same procurement approval levels as the Sandia contract authorization to the Contractor. (See Guideline 10.2.) Approval or disapproval of a subcontract and any related communications are signed by the SCR. If the Contractor requests approval of a subcontract concurrent with award of the Sandia contract, such approval may be included in the contract. Whether contained in the contract or letter, the authorization of the subcontract should include:

- name and address of the subcontractor,
- brief description of the materials or services covered by the subcontract,
- pricing arrangement and total amount of money to be committed under the subcontract, and

- basis for determining price or cost reasonableness of the subcontract, i.e., competitive quotes, price or cost analysis, etc. (This should be included in the contract file but not in any direct communication with the Contractor.)

Allowable Costs of Subcontracts - 1.4.G.5.f

Normally profit is not allowed on subcontracts. However, in the event the SCR determines that profit is to be a consideration, it can be included in the labor rates on the Weighted Guidelines.

Sandia Delegated Representative - 1.4.G.5.g

Delegation of authority under SC 404-KDB or SC 403-DLO in the contract should be very specific and the limits of each such delegation should be clearly defined.

Administration - 1.4.G.5.h

Factors inherent to a T&M/LH pricing arrangement that may enhance performance and cost control include:

- surveillance/active liaison by Sandia personnel,
- progress vs. cost reports,
- limitation of costs on specific tasks within the contract,
- comparison of Contractor's (proposed) purchases/subcontracts and material handling charges to actuals, and
- funds available for designated time periods up to the ceiling price for the entire contract.

Payments - 1.4.G.5.i

Invoices received by Accounts Payable will be processed for payment in accordance with the contract terms. Invoices that deviate from contract terms will be forwarded to the Requester and if applicable, to the SCR for approval.

Overtime Approval - 1.4.G.5.j

The Time Record of Contractor's Employees, SF 9537-F, is generally used to approve the payment for work done at Sandia. If so delegated by the SCR, the Sandia Delegated Representative (SDR) who approves the Time Record may also approve any authorized overtime worked. Without such written delegated authority, the SCR shall approve the overtime by also signing the Time Record form under a notation, "Overtime Approval."

Fixed-Rate Pricing Arrangements -

1.4.G.6

When a SOW is so general that the level of effort to accomplish it is unknown, the SCR may elect to use a fixed-rate pricing arrangement with task ordering provisions or a fixed-rate pricing arrangement without task ordering provisions. If this pricing arrangement is used the following methodology is recommended.

Fixed-Rate Pricing Arrangements With Task Ordering Provisions - 1.4.G.6.a

A fixed-rate pricing arrangement with task order provisions where:

- a proposal is requested from the supplier based on definitive tasks/deliverables that lend themselves to a fixed-pricing arrangement,
- the Contractor submits a proposal for each task showing a total price which is derived using the rates negotiated in the ordering agreement, and
- the proposal may be negotiated for the reasonableness of quantities, other direct costs, travel expenses, and subcontracts and a fixed-priced Standard Purchase Order with a total price clause will then be issued.

A fixed-rate pricing arrangements with task ordering provisions contract may be issued for any value.

Fixed-Rate Pricing Arrangements Without Task Ordering Provisions For Labor Priced on an Hourly Basis - 1.4.G.6.b

The SCR may also issue a contract with a fixed-rate pricing arrangement without task order provisions for labor priced on an hourly basis. This type of contract is generally used to specify labor rates in a maintenance/service contract. Fixed-rate contracts without task ordering provisions for labor priced on an hourly basis are very risky to use and should be used only as a contracting vehicle of last resort.

A fixed-rate pricing arrangement without task order provisions for labor priced on an hourly basis may only be used when:

- the Contractor's accounting system is not adequate to meet the auditing requirements of a CR or T&M pricing arrangement; and
- when another pricing arrangement is not feasible and it is essential to place a contract with this firm.

Prior to issuing a fixed-rate contract without task ordering provisions for labor priced on an hourly basis, the SCR shall assess the risks involved, the impossibility of using a different pricing arrangement, and the importance of placing a contract with such a firm. These issues must be addressed in the PAS.

If subcontracting is allowed, a rate for the subcontract shall be negotiated and included in the allowable charges clause. If material is involved, then the amount allowed for the material should be inserted in the contract and capped at that amount. This amount may be increased via a bilateral/unilateral revision.

It is a best practice for these specific types of contracts to not to allow for charges for travel or any other related expenses.

Once it is anticipated that the fixed-rate contract will exceed $100K, the SCR shall request that the Sandia Auditing Department perform a survey of the Contractor's accounting system to ascertain the Contractor's ability to administer a fixed-rate contract without task order for provisions for labor priced on an hourly basis. If the Contractor has an adequate accounting system, the SCR should then consult the applicable manager to determine if the contract should be reissued as a T&M or LH contract. If the Contractor's accounting system is not adequate, the SCR should consult with the manager to determine an appropriate course of action.

The total value of this type of contract, including options, all revisions, etc., may not exceed $100K without the approval of the SCR's manager. Any subsequent revisions of a fixed-rate pricing arrangement without task order provisions for labor priced on an hourly basis that affect any allowable charge, funding, POP, property, security, or the SOW, must also be approved by the SCR's manager once the value of the contract exceeds $100K prior to placement of the revision.

Note: The SCR is responsible for ascertaining receipt of services and is cautioned that there will be no audit conducted by Sandia after completion as there is in a T&M/LH pricing arrangement. It is recommended that both the SCR and the SDR approve all invoices prior to payment. While Sandia does not have audit rights, the SCR may request data to validate the invoices submitted by the Contractor

Fixed-Rate Pricing Arrangements Without Task Ordering Provisions – Non Labor Services and Product - 1.4.G.6.c

A fixed-rate pricing arrangement without task ordering provisions – non-labor services and product arrangement may be used for the procurement of goods and services where specific labor rates or persons are not priced out on an hourly basis. An example of price of this type would be if the price was based on per cubic yard or per task completed. A contract of this type may be issued for any value.

Note: The SCR is responsible for ascertaining receipt of services and is cautioned that there will be no audit conducted by Sandia after completion as there is in a T&M/LH pricing arrangement. It is recommended that both the SCR and the SDR approve all invoices prior to payment. While Sandia does not have audit rights, the SCR may request data to validate the invoices submitted by the Contractor.

Undefinitized Terms Contracts - 1.4.G.7

Undefinitized terms contracts are used for all pricing arrangements when placement of a definitive contract in sufficient time to meet programmatic needs is not feasible. The SCR should refer to Guideline 3.7 - Undefinitized Terms Contracts/Revisions.

References - 1.4.G.8

- Guideline 1.1 - Acquisition Planning
- Guideline 2.1 - Solicitation Document
- Guideline 2.2 - Contract/Purchase Order Systems
- Guideline 3.1 - Best Value Source Selection/Commercial-Like Practice
- Guideline 3.2 - Contractor Price/Cost Considerations
- Guideline 3.3 - Profit and Fee
- Guideline 3.5 - Financial Evaluation of Contractors
- Guideline 3.7 – Undefinitized Terms Contracts/Revisions
- Guideline 5.5 - Construction Contracting
- Guideline 6.8 - Incremental Funding

Send feedback on ideas and information on this page to the Process Expert, Adolph Bachicha.

Adolph Bachicha

Karen Archibeque