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ACQUISITION,
TECHNOLOGY,
AND LOGISTICS

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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SUBJECT: Appropriate Use of Lowest Priced Technically Acceptable Source Selection Process and Associated Contract Type

Reference: (a) DoD Source Selection Procedures Guide, March 4, 2011
(b) Director, Defense Pricing, "Taxonomy for the Acquisition of Services and Supplies and Equipment," August 27, 2012

LPTA is the appropriate source selection process to apply only when there are well-defined requirements, the risk of unsuccessful contract performance is minimal, price is a significant factor in the source selection, and there is neither value, need, nor willingness to pay for higher performance. Well-defined requirements equates to technical requirements and "technical acceptability" standards that are clearly understood by both industry and government, are expressed in terms of performance objectives, measures, and standards that map to our requirement documents, and lend themselves to technical evaluation on an acceptable/unacceptable basis. LPTA is most appropriate when best value is expected to result from the selection of the technically acceptable proposal with the lowest evaluated price.

Lowest Priced Technically Acceptable (LPTA) has a clear, but limited place in the source selection "best value" continuum. Used in appropriate circumstances and combined with effective competition and proper contract type, LPTA can drive down costs and provide the best value solution. LPTA offers a streamlined and simplified source selection approach to rapidly procure the commercial and non-complex services and supplies we need to support the Warfighter. If not applied appropriately, however, the Department can miss an opportunity to

secure an innovative, cost-effective solution to meet Warfighter needs to help maintain our technological advantage.

Whenever the Warfighter is willing to pay more for above threshold requirements or performance standards and may benefit from an innovative and technologically superior solution to meet their mission needs, a tradeoff source selection process between cost or price and non-cost factors is optimal. In these situations, the Department should share in advance with industry our technical requirements and communicate the monetary value of performance above the threshold or performance standards for evaluation purposes. Industry will understand the value proposition and can clearly propose to meet our needs with a cost-effective and innovative solution.

The selection of the appropriate contract type that best fits the requirements, performance circumstances, and desired outcomes is equally as important as using LPTA appropriately. This can be especially challenging, for example, when buying services, such as Professional or Management Support Services under the Knowledge-based Services Portfolio Group, when the real deliverable is hours of effort.

The Department procures a vast array of support services across all of the nine Services Portfolio Groups. In some cases, our requirements are firm, easily understood, and tied to clear, measurable outcomes, which lend themselves to fixed price contract types. The requirements for vehicle maintenance contract with precise availability rates and scheduled maintenance requirements is a good example. In other cases, we cannot firmly predict the tasks, efforts, and required outcomes that the contractor will be expected to perform, but require professional support services to enhance our mission performance. In these cases, the Department is truly buying an hour of effort to acquire the desired level of support to meet mission requirements. This situation lends itself to Cost-Plus-Fixed-Fee, Term, Level of Effort (CPFF LOE), which describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated period of time or in some circumstances a Time-and-Materials (T&M) contract type.

T&M contracts have been utilized for services when it is not practical to accurately estimate the extent or duration of the work required or the anticipated costs with confidence. However, T&M contracts inherently lack incentives for cost control and labor efficiencies. This is because the fully burdened labor rates are fixed for the skill levels and mix, requiring the government to pay the fully burdened labor rate, despite contractor efforts to reduce their own costs by seeking lower direct rates, lower burdens, or lower profit or fee factor. For this reason, comply with the Defense Procurement and Acquisition Policy Class Deviation Memorandum 2012-00016 at DFARS subpart 216.6, entitled, Approval Threshold for Time and Materials and Labor Hour Contracts and Preferences for Cost-Plus-Fixed-Fee Term Contracts, dated October 11, 2012, when selecting T&M contract types.

CPFF LOE is well-suited to these professional and management service requirements because it requires the contractor to perform a set number of hours, at the required skill mix and levels over a stated time period to earn a fixed fee. The benefit of CPFF LOE is that the direct labor rates and other costs for any particular hour are not fixed. Therefore, if the contractor

reduces the skill mix and level, which reduces the direct labor rates, the government is billed for that hour at the lower rate. Unlike T&M and Firm Fixed Price, the CPFF LOE contract allows the government to take advantage of the contractor's ability to create savings by adjusting skill levels and mix to coincide with the specific task and efforts required.

The Department must select the appropriate source selection process and contract type to match the specific requirement, meet Warfighter needs, and deliver a contracted solution that will provide the required performance levels at the lowest cost. Correct application of the LPTA and trade-off source selection process to match our acquisition situation will ensure the Department will deliver the "best value" outcome for both the Warfighter and taxpayer.

Frank Kendall