



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

August 7, 2008

MEMORANDUM FOR HEADS OF CONTRACTING ACTIVITIES

Subj: MANAGEMENT OF CONTRACTOR PERFORMANCE UNDER TIME & MATERIAL (T&M) AND LABOR HOUR (LH) CONTRACTS FOR SERVICES

Ref: (a) Government Accountability Office Report GAO-07-273 "Defense Contracting: Improved Insights and Controls Needed over DOD Time-and-Materials Contracts" June 29, 2007 [<http://www.gao.gov/new.items/d07273.pdf>]
(b) FAR 16.601(c) and FAR 16.602

Encl: (1) Director, DPAPSS memorandum of July 14, 2008

Reference (a) had a repeat finding that performance monitoring of services contracts does not always address risks inherent in T&M/LH contracts. Reference (b) cautions that T&M and LH contracts do not provide positive incentives to contractors for cost control or labor efficiency and require appropriate Government surveillance of performance to give reasonable assurance that efficient methods and effective costs controls are being used. Quality assurance surveillance plans for T&M/LH contracts should be developed when preparing the Statement of Work or the Statement of Objectives for any service requirement. When reviewing Statements of Work or Statements of Objectives, contracting officers should work with requiring officials to determine if all or a portion of the required efforts can be acquired under a more preferred contract type.

Contracting Officer Representatives (CORs) are representatives of the requiring activity. As indicated in enclosure (1), CORs are required to be trained and designated in writing prior to award of a contract for services awarded by a DoD component or by any Federal agency on behalf of DoD. Surveillance activities to be performed by CORs must be tailored to the specific contract based on complexity, dollar value and type of contract.

Questions may be directed to Bob Johnson at Robert.F.Johnson@Navy.Mil or 703-693-2936.


Seán F. Crean
RDML, SC, US Navy
DASN(A&LM)

Copy to: Page 2

Subj: MANAGEMENT OF CONTRACTOR PERFORMANCE UNDER TIME &
MATERIAL (T&M) AND LABOR HOUR (LH) CONTRACTS FOR SERVICES

Copy to:

AAUSN

CHBUMED

CHNAVPERS

CMC

CNO

COMUSFLTFORCOM

COMNAVRESFOR

COMNAVSPECWARCOM

COMONI

COMPACFLT

DIRFLDSUPPACT

DIRNAVSYSMGTAC

COMNAVSECGRU

COMUSNAVEUR

ASN(FM&C)

ASN(I&E)

ASN(M&RA)

ASN(RD&A)

PEO(A)

PEO(C4I/SPACE)

PEO(CARRIERS)

PEO(EIS)

PEO(IW)

PEO(JSF)

PEO(LMW)

PEO(SHIPS)

PEO(SPACE SYSTEMS)

PEO(SUB)

PEO(T)

PEO(W)

CHENG

DASN(AIR)

DASN(C4I/SPACE)

DASN(IP)

DASN(IW)

DASN(LMW)

Copy to (Cont) Page 3

**Subj: MANAGEMENT OF CONTRACTOR PERFORMANCE UNDER TIME &
MATERIAL (T&M) AND LABOR HOUR (LH) CONTRACTS FOR SERVICES**

Copy to (Cont):

DASN(M&B)

DASN(TDT&E)

DASN(SHIPS)

DRPM(EVF)

CMC (LB)

MARCORSYSCOM (CT)

MSC (N10)

NAVAIRSYSCOM (2.0)

NAVICP (02)

NAVFACENCOM (AQC)

NAVSEASYSCOM (02)

NAVSUPSYSCOM (02)

ONR (02)

SPAWARSYSCOM (02)

SSP (SPN)

OGC (FM&C, RDA)

OSN OSBP



**OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000**

**ACQUISITION
TECHNOLOGY
AND LOGISTICS**

JUL 14 2008

**MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA (ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION AND LOGISTICS MANAGEMENT),
ASN (RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTORS, DEFENSE AGENCIES
DIRECTORS, DOD FIELD ACTIVITIES**

**SUBJECT: Management of Contractor Performance under Time & Material and Labor
Hour Contracts for Services**

The purpose of this memorandum is to ensure that contracting officers are aware of current DoD policy and requirements for monitoring contractor performance under contracts for services, especially when using time and material (T&M) and labor hour (LH) type contracts, including interagency acquisitions. A recent Government Accountability Office (GAO) study of DoD T&M contracts included an assessment of DoD's monitoring of contractor performance and found that performance monitoring often did not address the risks inherent in T&M contracts.

Appropriate Government monitoring of contractor performance is especially important when using T&M and LH contracts because these contract types do not provide incentives to the contractor for cost control or labor efficiency. Government surveillance of contractor performance is necessary to ensure efficiency and cost effectiveness. Therefore, contracts for services, including T&M and LH, must include Quality Assurance Surveillance Plans to facilitate assessment of contractor performance. These plans must be prepared in conjunction with the preparation of the statement of work or statement of objectives and should be tailored to address the performance risks inherent in the specific contract type and the work effort addressed by the contract.

A contracting officer's representative (COR) assists in the technical monitoring or administration of a contract. For contract actions for services awarded by a DoD

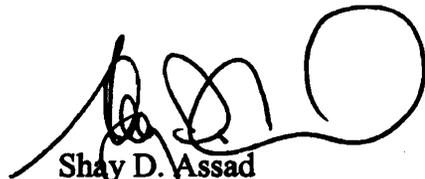


ENCL(1)

component or by any other Federal agency on behalf of DoD, contracting officers are required to designate a properly trained COR in writing before contract award. The surveillance activities performed by CORs should be tailored to the dollar value/complexity of the specific contract for which they are designated.

Finally, contracting officers have an opportunity to decrease performance risks associated with T&M and LH contracts for services when reviewing requirements for follow-on efforts. When performing these reviews, contracting officers should work with program officials to determine if all or a portion of the effort can be ordered on a fixed-price basis.

My point of contact for this issue is Susan M. Hildner at 703-697-0895 or via e-mail susan.hildner@osd.mil.

A handwritten signature in black ink, appearing to read 'Shay D. Assad', with a large circular flourish at the end.

Shay D. Assad
Director, Defense Procurement,
Acquisition Policy, and
Strategic Sourcing